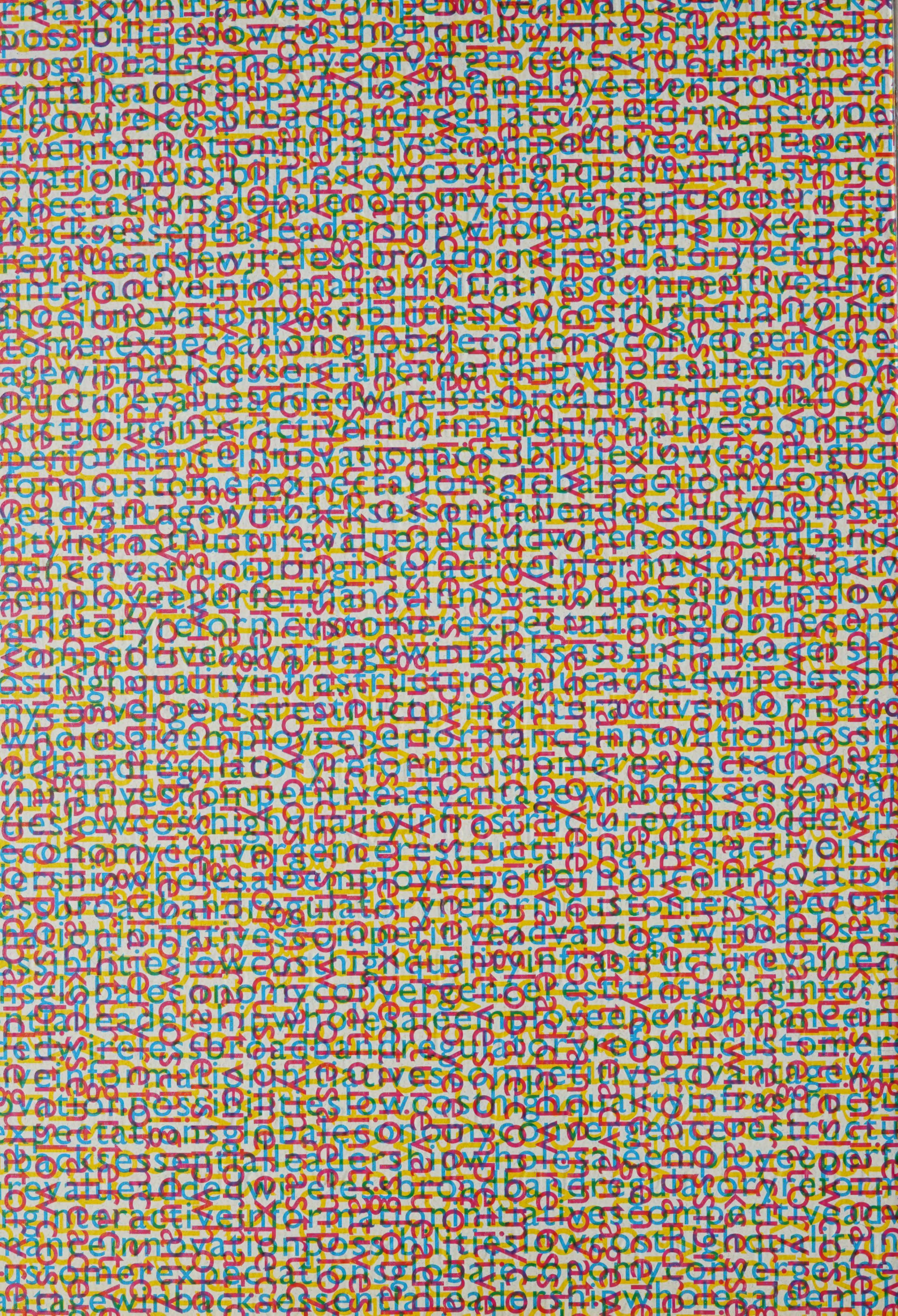


you
are
here*



* You are in a world of instant communication. A world in which the movement of voice, data and video is now an essential component that shapes the way we relate to each other as individuals, as enterprises and as societies.

leadership	customers	service	innovation
	BC TELECOM		
	1994 ANNUAL REPORT		

Telecommunications provides the invisible link. The world is smaller, the possibilities are larger. Yet communication remains what it has always been – the reaching from one person to another, or to millions.

We're a major force in the telecommunications industry and we're justly proud of it. BC TELECOM is a corporate structure made up of BC TEL, Canada's second largest telecommunications company, and BC TEL Services Inc., a group of companies focused on emerging communications technologies. It includes BC TEL Mobility Inc., one of the fastest growing cellular companies in North America, and MPR Teltech Ltd., a leading Canadian high-technology company with an international portfolio of customers.

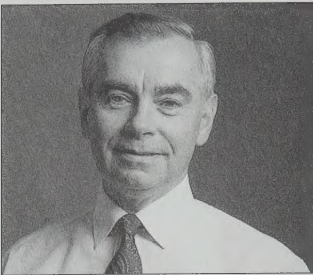
REPORT HIGHLIGHTS	1994	1993	Change
CONSOLIDATED HIGHLIGHTS			
Operating revenues (\$ Millions)	\$ 2,295.4	\$ 2,209.6	3.9%
Net earnings (\$ Millions)	\$ 224.5	\$ 214.6	4.6%
Return on common equity	12.2%	12.4%	(1.6%)
Earnings per share	\$ 1.88	\$ 1.81	3.9%
Dividends per share	\$ 1.23	\$ 1.19	3.4%
Customer access lines in service	2,264,252	2,171,689	4.3%
Long distance switched conversation minutes (Millions)	2,623	2,456	6.8%
CELLULAR OPERATIONS HIGHLIGHTS			
Customers	148,062	106,582	38.9%
Penetration rate	4.8%	3.7%	29.7%
Estimated market share	56%	56%	—
Average monthly revenue per customer	\$ 95	\$ 95	—
Cash flow margin	51%	49%	4.1%
Net earnings (\$ Millions)	\$ 24.6	\$ 16.8	46.4%

Shareholders are invited to attend our first ever multi-site Annual General Meeting, Wednesday, April 26, 1995. Our two-way video-conferencing technology will allow full shareholder participation at the following locations: the auditorium at BC TELECOM's head office, 3777 Kingsway, Burnaby, B.C.; at Robson Square Conference Centre, 800 Robson Street, Vancouver, B.C.; and at the Sheraton Centre, 123 Queen Street West, Toronto, Ontario. The Annual General Meeting will begin at 10:00 a.m. Pacific time, 1:00 p.m. Eastern time.

The BC TELECOM you will find in this annual report is proud of its history, its people, its accomplishments to date. We know where we've been. We know the challenges we have faced – and overcome – in the transition from a monopoly to our current competitive state.

We know where we're going and we know the challenges and opportunities that await us. We also know we have people with the skills and acumen to position BC TELECOM as the preferred choice for customers who need telecommunications products and services.

This is the vantage point offered in our 1994 annual report. In the following pages, Chairman and Chief Executive Officer Brian Canfield and three members of our senior management team give their perspectives on our rapidly changing industry and BC TELECOM's leadership position in this exciting new environment.



leadership	customers	service	innovation
	CHAIRMAN'S MESSAGE		
	Brian Canfield on Plotting Our Future Course		

*“For those who respond wisely and decisively,
the possibilities are even greater than the most
optimistic visionaries can now imagine.”*

New era

We have just come through one of the most exhilarating years in our history. It's not an overstatement to say that, in 1994, we witnessed the dawn of a new era in Canada's telecommunications industry.

More about these events in a moment. First, I want to applaud the 13,700 people who make up BC TELECOM. Despite a year of profound change, the concentration and hard work of employees throughout the organization allowed us to achieve record earnings in 1994.

Consolidated net earnings for the year were \$224.5 million or \$1.88 per share, compared to \$214.6 million or \$1.81 per share in 1993. You will find highlights of our financial results on page two, and detailed results beginning on page 32.

These financial results are particularly significant because our overall earnings growth occurred despite a decline in our long-distance revenues – a decline that is a natural reflection of what has become an intensely competitive long-distance marketplace.

The headline story for our industry in 1994 was the Canadian Radio-television and Telecommunications Commission's (CRTC) sweeping decision in September to redefine the way telecommunications is regulated in Canada.

CRTC chairman Keith Spicer said the decision was designed to meet “the new realities of Canada's fast-evolving competitive telecommunications marketplace.”

I believe he's absolutely right.

Regulatory
reform

This decision represents a major breakthrough for our customers and our industry. It gives customers greater choice from a wider range of communications services. And it gives Canada one of the most open and competitive telecommunications markets in the world. That's vitally important if Canadian business is to compete successfully in the global economy. Highlights of the decision include:

- streamlining regulations to allow us to bring products and services to our customers faster;
- encouraging statements about the role telephone companies should play in the emerging information services industry, including clarification of our ability to compete in promising new transactional services, such as home shopping and banking;
- allowing immediate entry into the local-service market by alternative suppliers, including cable companies;
- introducing a rate rebalancing program that would increase local-service rates and reduce long-distance rates by a corresponding amount over a three-year period;
- splitting our rate base – as of January 1, 1995 – into utility and competitive seg-

ments, with only the utility segment subject to earnings regulation;

- moving from earnings regulation to price caps by January 1, 1998.

We're in favour of these changes. And I think consumers will be, too. The decision is a win for them, for companies such as ours that want to compete, and for a vigorous, healthy telecommunications industry. Regrettably, not everyone affected by the decision agrees – a few companies want concessions that would put them at the

favoured end of an uneven playing field.

Opposition to parts of the decision and second-guessing

may slow its implementation, but the future course seems clear. A number of CRTC proceedings are now under way to determine how best to implement and follow up on various aspects of the decision.

One of the most critical of these proceedings began this month with a public hearing on what has been labeled "convergence" – the merging of formerly distinct industries through the advance of technology. Lines that once separated telecommunications, broadcasting and cable are all but transparent. And artificial. While cable companies are now permitted to offer

Convergence



Influencing
change

Network
Operations

Retail
focus

local telephone service, telephone companies cannot hold a broadcast licence to deliver cable-TV service or to provide many of the emerging information services.

The next logical step is to open the cable-TV and emerging services markets to competition. We believe this step is critical if Canadians are to have competitive choices when selecting products and services on the information highway.

This step is already being taken in countries around the world.

Canada needs to act quickly, or risk being left behind. In North America and around the world, we're seeing bold new alignments and alliances among companies in anticipation of the major changes that are just around the corner.

For those who respond wisely and decisively, I believe the possibilities are even greater than the most optimistic visionaries can now imagine. That's why I'm so enthusiastic about the CRTC's regulatory reform decision. If we follow the course it has set, we will play an important role in the unfolding global communications drama. And we will be able to influence the course of change to the benefit of Canada's consumers, culture and economy.

We are taking steps in this direction. In January of this year, we announced a plan

to restructure part of our organization so that we can respond swiftly and appropriately to increasingly rapid market and regulatory changes. The central element in the restructuring is a new Network Operations division within BC TEL, under the leadership of Don Calder, Executive Vice-President, Network Operations.

The new division, which has approximately 3,400 employees, consolidates our network infrastructure, and gives us a broad, well-equipped and capable wholesale organization. Its objective is to be the low-cost, high-quality provider in the markets it serves.

We expect to restructure our two retail subsidiaries over the next 18 months to reflect continued changes in markets, business opportunities and the regulatory environment. Both subsidiaries – BC TEL and BC TEL Services – are focused on anticipating and meeting customers' telecommunications needs. Their challenges are to understand retail and business markets intimately and to create the innovative, value-added products and services that our customers want and need.

Meanwhile, MPR Teltech Ltd., our high-technology subsidiary, continues to broaden its customer base. MPR Teltech now sells advanced telecommunications

systems and products to clients in more than 20 countries. The company has more than 700 employees at six locations in Canada, the U.S. and Europe.

On page 30, you will find an introduction to our Board of Directors and the Board committees that help us deal with complex and fast-moving issues.

In an industry as dynamic as ours, the requirement for an effective corporate governance system is unprecedented. We are blessed with able, hardworking Board members, whose diligent guidance is of enormous value in steering BC TELECOM toward opportunity and growth in these exhilarating times.

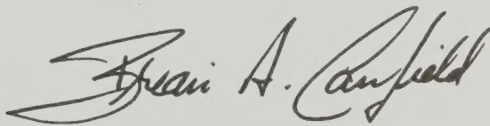
None of our success would be possible without the contribution and effort of BC TELECOM's employees. Much is asked of them year in and year out, including continuously higher performance under conditions that were demanding to begin with. They represent the heart and soul of BC TELECOM. I salute them and urge them on to even greater accomplishments in the year ahead.

The contribution of our employees is also felt in the communities where we live and work. For the fifth consecutive year, our Telephone Employees' Community Fund (TECF) raised more than \$1 million

for charitable agencies throughout the province. And BC TELECOM was one of just 20 companies in Canada to be recognized by United Way of Canada for the level of corporate and individual employee contributions made to United Way agencies in British Columbia in 1994.

Our Telephone Pioneers also continue to lead by example. The volunteer efforts of these current and retired employees is praised in communities throughout B.C. This fall, we will host the 70th General Assembly of the Telephone Pioneers of America. This annual meeting will attract 1,500 delegates to Vancouver from across North America.

These are exciting times for all of us at BC TELECOM. After more than a century in the telecommunications business, and following a decade of tumultuous change, we now stand at the beginning of a new information age; one rich with opportunities. I look forward to the challenges of the months ahead, and to the prospects of our long-term future.



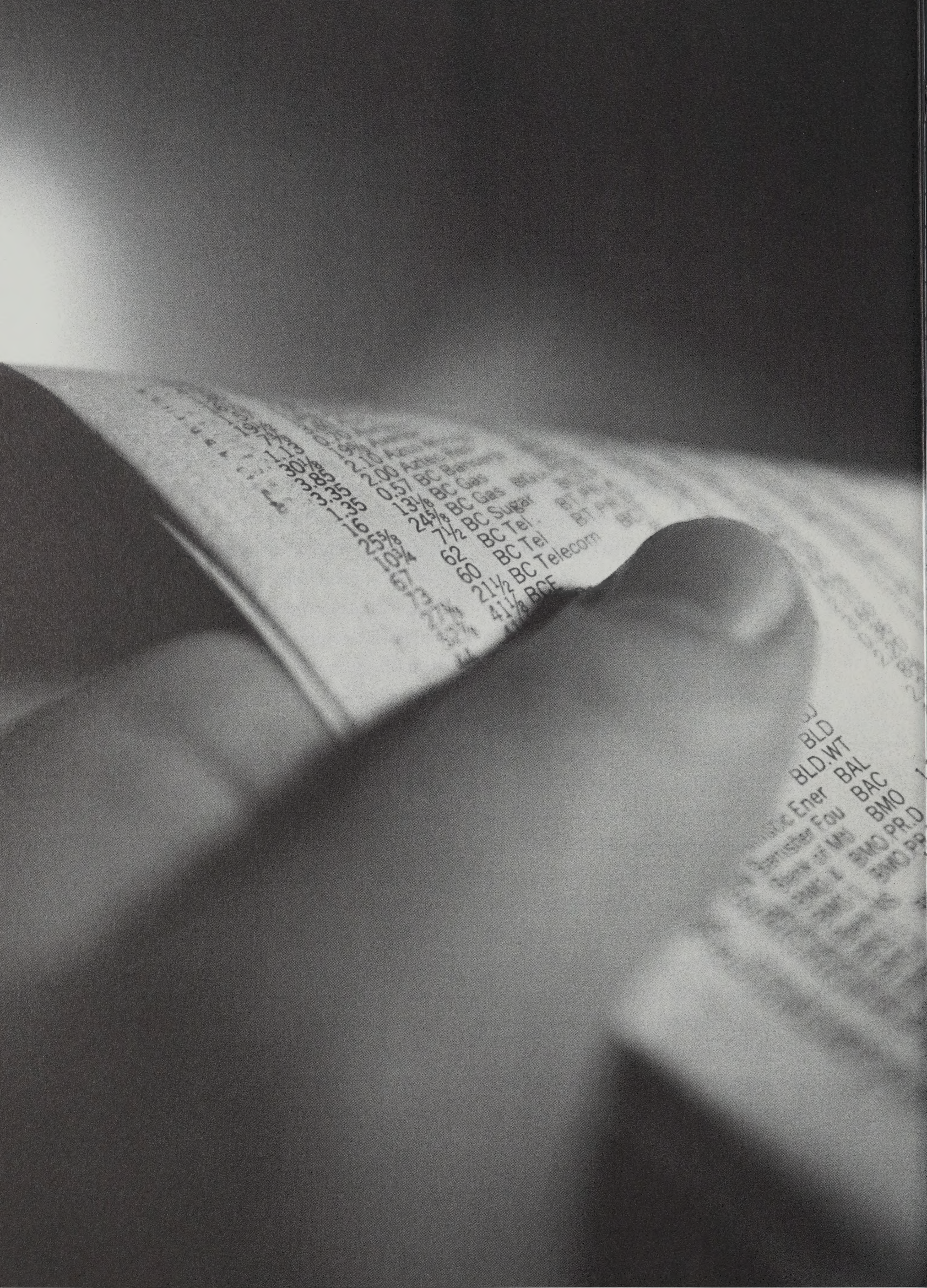
BRIAN A. CANFIELD

Chairman and Chief Executive Officer
March 3, 1995

Corporate
governance

Saluting
employees

Community
involvement



Our high-speed fibre backbone network, proven in medical, educational

and government applications, is gaining ground in business markets. Now,

brokers at Canaccord Capital Corp. offices in B.C., Alberta and Ontario can

information won here

provide information systems & consultants,
management and account management

for their customers - innovative use of
emerging technologies and examples of

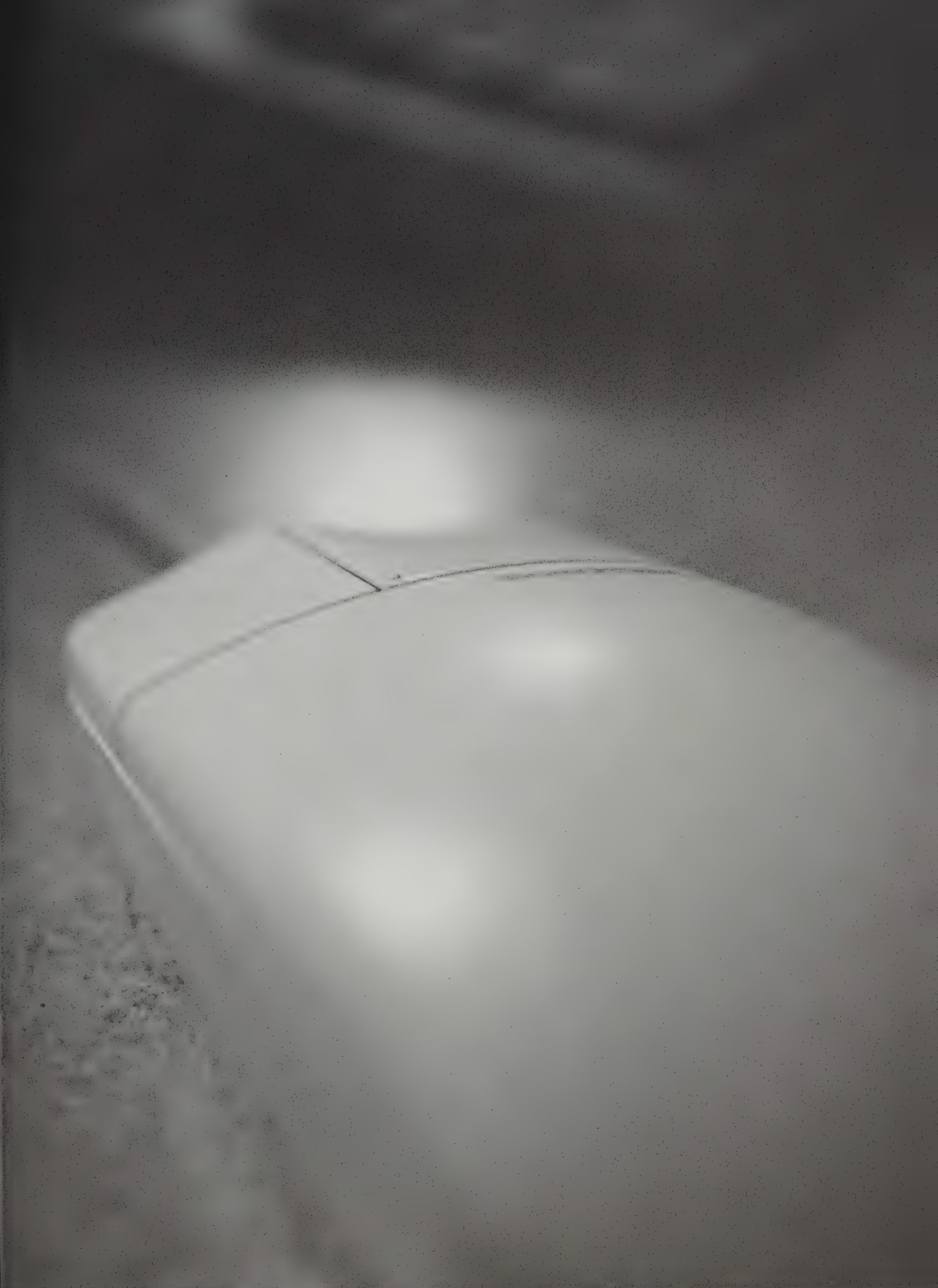
the winning focus of BC TELECOM
We're moving fast

information now here

Our new open data marketplace is a
one-stop shop for all your data needs.

Our new open data marketplace is a
one-stop shop for all your data needs.

Our new open data marketplace is a
one-stop shop for all your data needs.



provide instantaneous stock quotations,
transactions and account management

for their customers. Innovative uses of
emerging technologies are examples of

the changing focus at BC TELECOM.
We're moving fast.



leadership	customers	service	innovation
	BC TEL SALES AND SERVICE		
	Lynn Patterson on Knowing Our Customers		

“Pricing and packaging are critical to retaining – and winning – customers.”

The facts

Here are three everyday facts that, taken together, put into perspective the challenges and opportunities we face in BC TEL, our regulated subsidiary.

Fact one: There are more than 1,000 long-distance companies competing for customers in North America today. Anyone who still has a monopoly mindset is in serious danger of being run over by hard-charging competitors.

Fact two: Our fastest-growing competitors are marketing enterprises, not companies with elaborate infrastructures. They feed on ideas, not on real estate or on massive, long-term capital investment.

Fact three: Customers have more choice than ever before. If one company is unresponsive, customers will quickly exercise their

options and take their business elsewhere.

We’re not alone in having to deal with change, of course. It’s part of being in business during the closing moments of this century.

Success in the 1990s means looking at customers in a new light. And that’s what BC TEL is doing. Gone are the days of telephone subscribers. Today we have customers. Today we serve market segments, not just geographic regions. And today we tailor our products and services to meet the needs of distinct market segments, rather than provide one-size-fits-all.

Pricing and packaging are critical to retaining – and winning – customers. In the past year, we launched a number of initiatives to help us win with our business and residential customers.

Market segments

Winning
with
customers

For example, we began 1994 with an aggressive launch of our new Advantage™ brand of services for business customers. Advantage marks a fundamental change in the way we do business with our business customers. It's an important step in our goal to become a customer-driven organization. And the early results are positive: We have averaged approximately 160 business-customer winbacks a month since last April.

Our residential customers are also experiencing a bold, new BC TEL – one that is willing and able to compete in the red-hot residential long-distance market. For example, last May we opened Western Canada's largest and most technologically-advanced Telesales

Centre. On an average day, our Telesales Centre representatives speak with 6,000 customers, sell 2,000 Real Plus™ long-distance savings plans and 250 calling features, and sign up 2,000 customers to our Rewards™ loyalty program.

We have also taken steps to retain and win back customers in the very competitive Chinese-language market. We have introduced in-language services – in two Phone-Marts, in operator service, and in our Rewards Centre – so that Chinese-speaking customers can do business with us in their

own language. Thanks to these initiatives, a significant proportion of this market segment has signed up for our long-distance savings plans.

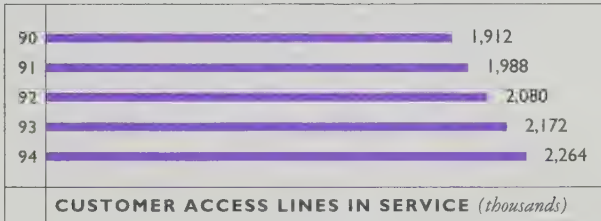
At the same time, we are learning that we no longer can be expected to serve all market segments, or continue to be all things to all people. As we find innovative ways to say “yes” to customers, we're also learning how, when and why to say “no.”

This requires a significant cultural shift for employees accustomed to a service-oriented, not a retail-oriented, world. I know it's not easy to tell customers we no longer provide

the subsidized services or products that they have come to expect from us.

However, this is one of the challenges in today's intensely competitive retail world. If we maintain the course we set last year, I am confident customers will continue to turn – and return – to BC TEL as their preferred choice for products and services.

Cultural
change



E. LYNN PATTERSON

President, BC TEL Sales and Service
March 3, 1995



The proliferation of choices in the competitive residential long-distance

market can be overwhelming. Customers don't want to read the fine print,

decipher complex clauses or uncover the meaning of the ever-present asterisk.

I'll be there
hi grandma.
in two weeks
will you come
and i can
visit me?
hardly wait.

i'll be there

.smbnsg in

in two weeks

emoo uoy lliw

and i can

?em tiziv

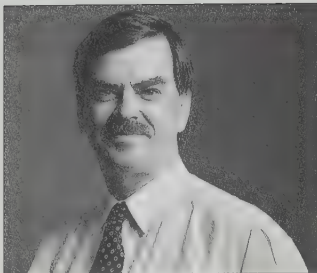
hardly wait.



We know customers want value from a supplier they can trust and we offer

clear solutions that fit their individual needs. We're working hard to ensure

that BC TEL is the logical choice. It's that simple. And complex.



leadership	customers	service	innovation
	NETWORK OPERATIONS		
	Don Calder on Building on Our Strengths		

*“The key is to be the low-cost,
high-quality provider of
network services.”*

The reason for defining our network operations in a new way is straightforward.

It allows us to react intelligently, appropriately and swiftly to changes in our customers’ expectations, our markets and the regulatory environment.

Our Network Operations division puts us in a strong position to go after wholesale business opportunities that have followed in the wake of regulatory decisions to open our industry to increased competition. By wholesale, I mean the transport side of our business – the network that carries voice, data and video communications.

The key to success in this kind of business is to be the low-cost, high-quality provider of network services. If we’re not, the door is left open for competitors and

large business customers to build their own facilities – to bypass our network, and to compete against us.

That’s why efficiency and cost-control are essential disciplines of our division. Customers want wholesalers to keep the system reliable, the quality high, and the costs low. In short, do it better, faster, for less.

That’s quite different from the retail side, where the imperatives have more to do with marketing innovative, value-added products and services.

Because of these fundamental differences, separate retail and wholesale operations make sense. They require different mindsets and, usually, different people with different goals, capabilities and personalities. Consider, for example, the different ways we relate now to

Reliability

Wholesale
business

Our
strengths

other companies in our industry. One of our biggest customers on the wholesale side of the business also happens to be one of BC TEL's most aggressive retail competitors.

Customer and competitor. It's a new world out there, and it's important for our organization to recognize that there are times when a competitor can also be a customer; at other times that same competitor can be a supplier and, perhaps one day in the future, even become a partner.

Our Network Operations division has a great deal to offer customers. Among our strengths: an advanced telecommunications network that's in place, and getting better every year; skilled, experienced people; and a proven track record of serving British Columbians.

As in most organizations, our weaknesses are the reverse of our strengths. Our network is not only first-rate and extensive, it also can be expensive to maintain. Our people are skilled and experienced, but we face major challenges to lower costs and increase productivity in this new business environment. And our relationships with parts of BC TELECOM may be long-term, but they cannot be taken for granted.

On the whole, however, our division is well-positioned to achieve its goals. We intend to practice the low-cost, high-productivity disciplines of the wholesale business so well

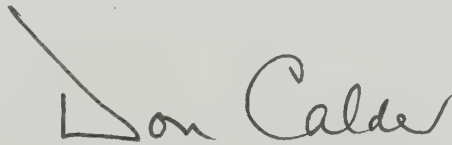
Our
challenge

that BC TEL's competitors will find it more prudent to become our customers on the wholesale side. We intend to provide such high-quality network services that they will turn to us as their supplier of choice.

I believe our new organization is exactly right for the times. It consolidates our strengths in the wholesale business; it clarifies our mission; it allows us to isolate and pursue attainable objectives.

This clarity of purpose also delineates the size of the challenges. Our competitors are imaginative, able, determined and some have demonstrated that they have very deep pockets. It is not a simple task to be the low-cost provider of the highest quality products and services in this province – and our goal is just that.

I know we can do it. And I know there's nothing quite as tantalizing – or as much fun – as being recognized as the very best in the world at what you do. That's what is expected of our division, and that's exactly what we're going to do.



DON A. CALDER

Executive Vice-President, Network Operations
March 3, 1995



In August 1994, BC TELECOM brought the world to the XV Commonwealth

Games in Victoria. Our integrated fibre-optic network, the first of its kind

to carry video, voice and data for such an event, connected 17 Games venues

42,982 kilometres
metres

0001

45,985 kilometres

29179m



to our International Broadcast Centre. This enabled the host broadcaster and

seven international TV networks to transmit live Games coverage around

the world. Our technology made it possible. Our people made it happen.



leadership	customers	service	innovation
	BC TEL SERVICES INC.		
	Fares Salloum on Delivering the Goods		

“We are an active agent in a paradigm shift in communications that will touch virtually every area of our lives.”

Lifestyle

To understand the businesses that BC TEL Services is in, just look at your neighbours' lifestyle. Or your own. You're busier than ever, striving to balance the demands of job and home. You're concerned about family, security and lifestyle. That's where we come in.

We know, for example, that our customers want safety and security – a cellular telephone in the family car helps; or a Liberti™ cellular phone that you can take anywhere. Personal pagers are another communications tool that families have adopted. Parents give them to their kids so the family can stay in touch when headed in different directions.

By packaging our services to be responsive to these needs, both our cellular and paging operations reported strong customer growth rates in 1994. Our BC TEL Mobility Cellular

customer base increased 39 per cent to more than 148,000 customers last year, making it one of the fastest-growing cellular companies in North America today. The customer base for BC TEL Mobility Paging grew by 16 per cent to more than 77,000 customers.

And, we have a number of exciting, new ideas on the way. These include wireless services that will allow customers to receive E-mail on a remote laptop, to connect a portable computer to the Internet, or validate credit cards instantaneously.

We're also active on the Internet, providing high-speed inter-LAN connections that improve speed and quality for companies that sell Internet access.

In 1994, our interactive, broadband video-conferencing service – Ubiquity™ –

Wireless services

extended its reach in the province. We now have 160 Ubiquity locations, compared to fewer than 20 a year ago. This service already connects several B.C. hospitals, and many businesses now hold multi-site meetings via Ubiquity.

Discovery Learning Services continues to work closely with educators to put the latest in computer-based resources into the hands of students. By the end of this year, Discovery Learning Services expects to link – via Ubiquity – 40 schools and post-secondary institutions throughout B.C. with resource centres such as museums.

Discover British Columbia is our toll-free travel information and reservation service offered in partnership with the provincial Ministry of Small Business, Tourism and Culture. It has added the world-famous West Coast Trail and RV camp sites as destinations that tourists can book by dialing 1-800-663-6000 from anywhere in North America.

And later this year, skiers drawn to the vertical drops at Whistler, B.C., will be able to buy lift tickets and peruse restaurant menus at computer kiosks located in the village.

In spite of rapid growth in product variety, we're still at the very beginning of what is termed the 'information age'. Perhaps our

present moment is comparable to the early days of telecommunications. It was immediately obvious then that people could talk over relatively long distances – but hard to imagine what that meant to businesses or families.

I believe we're an active agent in a paradigm shift in communications that will touch every area of our lives, including government, business, medicine, education, and the arts.

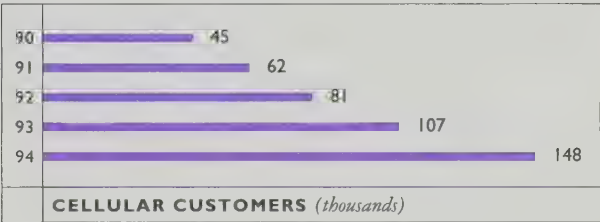
Present trends suggest how changes may occur in the future. Businesses are quick to try new services because they see competitive advantage in greater speed, higher quality, lower costs and increased efficiency. Institu-

tions hard-pressed by increasing demands and shrinking budgets follow the lead of business. And consumers – you and me – choose among new services after they're proven and priced within our reach.

The paradigm shift is already underway. The question now is familiar to us: how can we participate in ways that are useful to our customers and profitable to our company?

FARES F. SALLOUM

President, BC TEL Services Inc.
March 3, 1995



What's next?

Partnerships



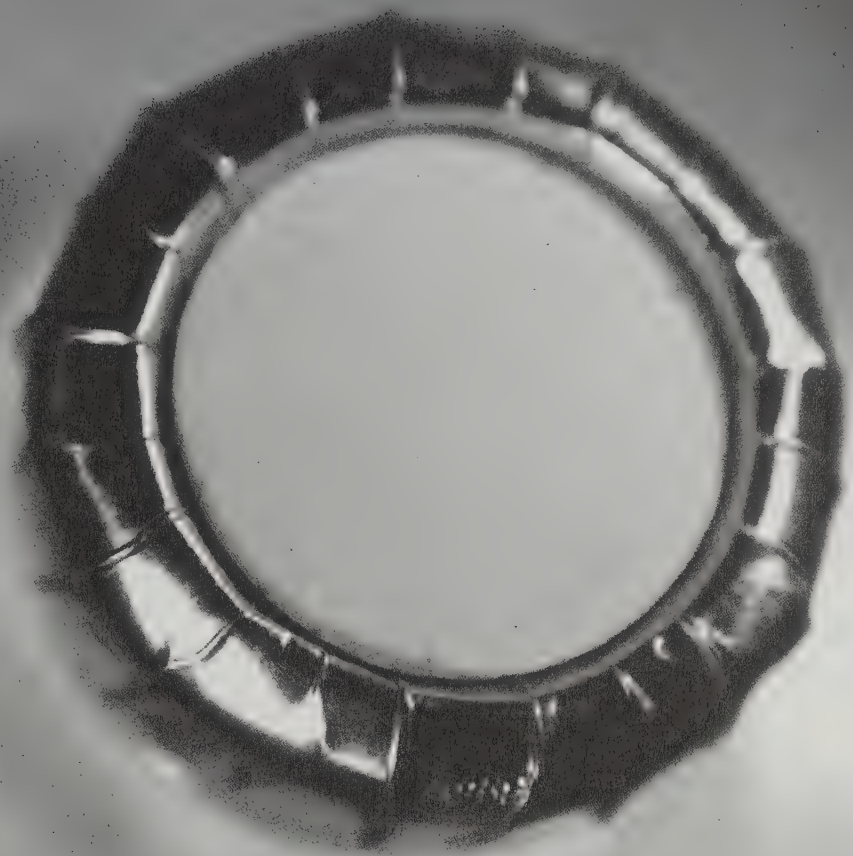
Since its introduction as a business tool, the cellular phone has quickly gained

wider acceptance. Lifestyle demands are leading people to find new ways of staying

in touch and presenting exciting new market opportunities for BC TEL Mobility.

my cellular
phone is
a valuable
business tool.
way home?

hi honey,
my cellular
could you
phone is
pick up some
a valuable
milk on the
business tool.
way home?



The growing use of mobile communications is a prime example of a cultural

shift that is changing perceptions of our business. We're delivering the advanced

services that people want today, and developing solutions for tomorrow.

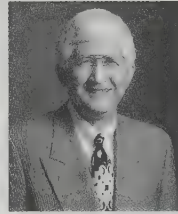
**BC TELECOM
BOARD OF
DIRECTORS**



Brian A. Canfield
*Chairman and Chief
Executive Officer*



G. Neldon (Mel)
Cooper CM, OBC
*President, Seacoast
Communications Group
Inc., Victoria, B.C.*



Kent B. Foster
*Vice Chairman,
GTE Corporation
and President, GTE
Telephone Operations
Group, Irving, Texas*



M. Rendina K.
Hamilton QC, OBC
*Corporate Director,
Kelowna, B.C.*



James L. Johnson
*Chairman Emeritus,
GTE Corporation,
Irving, Texas*

The 11 women and men who comprise our Board of Directors play an important role in the success of BC TELECOM. As individuals, they bring to the Board a breadth and diversity of experience and skills from their respective industries and professions. As a Board, they demonstrate a strength that comes from mutual respect, teamwork and personal commitment to our corporation. With an average of 12 years' experience on our Board, they provide the strategic support, direction and advice to management that is critical to our long-term success.

The Board's primary responsibility is to do just that – foster the long-term success of the corporation in a manner that will maximize shareholder value. In doing so, the Board is committed to the principles of accountability and independence. Management is accountable to the Board; the Board is independent from management and is accountable to shareholders.

These principles are reinforced in the conclusions and recommendations of the Board Governance Committee that are now being finalized for

presentation to the Board. This committee and its responsibilities are outlined below.

The Board holds half-day meetings on a monthly basis. Board members also participate on one or more of the following committees.

BC TELECOM BOARD GOVERNANCE COMMITTEE

The Board Governance Committee was established in Spring 1994 to provide a focus for our Board on governance practices – the processes and structure used by the Board of Directors to supervise the business and affairs of BC TELECOM, with the objective of enhancing shareholder value. The committee has been asked to examine these issues and provide a comprehensive report and recommendations that will assure BC TELECOM an effective and appropriate corporate governance system.

Specifically, the committee has been asked to develop a system for ongoing development and evaluation of board members, orientation for new members, and general evaluation of the Board and its committees. The Board Governance



Robert H. Lee OBC
President, Prospero
Group of Companies,
Vancouver, B.C.



Gordon F.
MacFarlane OBC
Corporate Director,
Burnaby, B.C.



Victor F. MacLean
Corporate Director,
Vancouver, B.C.



John W. Pitts
President and Chief
Executive Officer,
MacDonald Dettwiler
& Associates Ltd.,
Richmond, B.C.



Barbara J. Rae
CM, OBC
Chairman, ADIA
Canada Ltd.,
Vancouver, B.C.



W. Robert Wyman
Chairman,
Finning Ltd.,
Vancouver, B.C.

Committee will also identify the desired experience and skills of potential directors and, in consultation with the Chairman and Chief Executive Officer, will recommend to the Board candidates for nomination as directors.

Members: G. Neldon (Mel) Cooper, Kent B. Foster, John W. Pitts, Barbara J. Rae, W. Robert Wyman

BC TEL PENSION TRUST COMMITTEE

This committee assists BC TEL in administering the company pension plan for management and exempt employees and the related trust fund. The committee reports to the Board on the actuarial soundness of the trust fund, the administrative aspects of the plan investment policy, the performance of the investment portfolios and compliance with government legislation.

Members: G. Neldon (Mel) Cooper, M. Rendina K. Hamilton, Gordon F. MacFarlane

BC TELECOM AUDIT COMMITTEE

This committee performs audit committee functions for both BC TELECOM and BC TEL.

This entails reviewing all financial information provided to shareholders, the corporate control systems established by management and the Board, and the audit process itself. The committee's review of our consolidated financial statements includes the Management's Discussion and Analysis, which begins on page 32 of this annual report.

Members: Robert H. Lee, Victor F. MacLean, Barbara J. Rae

BC TELECOM HUMAN RESOURCES AND COMPENSATION COMMITTEE

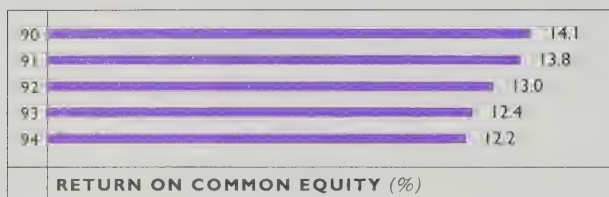
This committee develops and recommends for Board approval the executive compensation program and the compensation paid to the Chairman and Chief Executive Officer and other executive officers of BC TELECOM and its subsidiaries. This committee also establishes a succession plan for BC TELECOM executives and other key managers.

Members: Kent B. Foster, James L. Johnson, Gordon F. MacFarlane, John W. Pitts, W. Robert Wyman

OVERVIEW

BC TELECOM Inc. is one of the largest telecommunications corporations in Canada, offering telecommunications services through BC TEL, Canada's second-largest telephone operating company, and through a number of other telecommunications and related businesses which comprise BC TEL Services Inc.

BC TELECOM's primary financial objective is to increase shareholder value over time. Management's focus is on developing and implementing business strategies which will earn a return on shareholders' equity commensurate with the Company's business and financial risks. Continuing growth in earnings and dividends is a key financial goal.



In 1994, net earnings increased 4.6% to \$224.5 million from \$214.6 million in 1993. BC TELECOM's net earnings have increased each year since 1984. On a per share basis, earnings increased to \$1.88 in 1994 from \$1.81 the previous year.



The following tables indicate the contribution to common share earnings from BC TELECOM's major businesses.

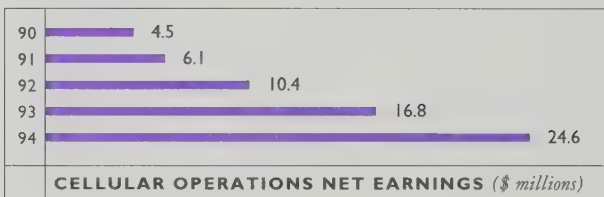
Contribution to Common Share Earnings

(\$ Millions)	1994	1993	Increase (Decrease)	% Change
BC TEL Continuing Operations	195.0	184.6	10.4	5.6
BC TEL Services				
– Cellular Operations	24.6	16.8	7.8	46.4
– Other Operations	20.1	6.9	13.2	191.3
Corporate	(19.9) ¹	(2.5)	(17.4)	—
	<u>219.8</u>	<u>205.8</u>	<u>14.0</u>	<u>6.8</u>

Contribution to Earnings Per Share

(\$ Millions)	1994	1993	Increase (Decrease)	% Change
BC TEL Continuing Operations	1.67	1.62	.05	3.1
BC TEL Services				
– Cellular Operations	.21	.15	.06	40.0
– Other Operations	.17	.06	.11	83.3
Corporate	(.17) ¹	(.02)	(.15)	—
	<u>1.88</u>	<u>1.81</u>	<u>.07</u>	<u>3.9</u>

¹ Includes \$7.8 million or \$.07 per share related to a provision for corporate restructuring costs.



BC TELECOM operates only in the telecommunications industry and derives the majority of its operating revenues and earnings from BC TEL.

The following sections discuss BC TELECOM's consolidated operating results and financial position, referring to specific subsidiaries or businesses where appropriate.

RESULTS OF OPERATIONS

Operating Revenues

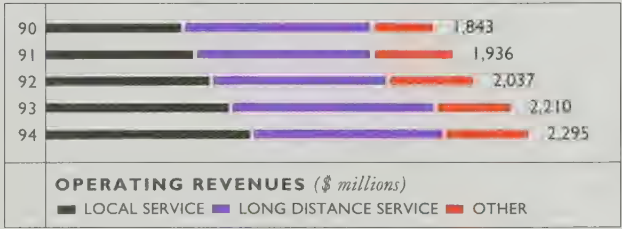
Operating revenues increased 3.9% or \$85.8 million to \$2,295.4 million in 1994 from \$2,209.6 million in 1993.

(\$ Millions)	1994	1993	Increase	% Change
Local service	970.7	867.0	103.7	12.0

About 65% of local service revenues in 1994 were earned by providing network access services and renting terminal equipment to business and residential customers. Provision of these services and equipment accounted for \$46 million of the \$104 million increase in local service revenues and resulted primarily from a 4.3% growth in customer access lines over 1993. Business lines increased by 38,000 or 5.6%, reflecting the strength of B.C.'s economy, rising business confidence and a growing tourist industry. Growth in residential lines of 54,000 or 3.7% was due to continuing inter-provincial and international migration to British Columbia and a buoyant housing market in the first half of the year.

Strong growth in cellular telephone customers – up 39% to more than 148,000 at year end – resulted in a \$29 million increase in local cellular revenues. Average monthly use per customer increased to 185 minutes from 180 minutes in 1993, while average monthly revenue per customer remained at \$95.

Also contributing to higher local service revenues was a \$13 million increase in revenues from Smart-Touch network management services. The market penetration rate for services such as call waiting and call forwarding has increased to 35% from 25% in 1993 and to 12% from just under 10% for call management services, including call display. Call answer, the integrated voice messaging service, achieved a penetration rate of 8% at year-end 1994.



Higher revenues from directory assistance services and higher payments from competitors for inter-connection with BC TEL's network, also contributed to the increase in local service revenues in 1994.

(\$ Millions)	1994	1993	Decrease	% Change
Long distance service	915.3	977.4	(62.1)	(6.4)

Revenues from message toll, 800 and WATS services declined \$27 million in 1994. A 7% increase in switched conversation minutes was more than offset by the impact of a reduction in the average revenue per minute. The higher volume of long distance calling reflects the continuing movement of new residents to the province, the strength of B.C.'s economy and the stimulative effects of lower long distance prices, particularly for 800 services. Revenue per minute declined primarily due to the impact of heavily discounted calling packages for both business and residential customers. Despite the introduction of equal access during the third quarter, BC TEL's market share declined just three percentage points to 85% in 1994.

Also contributing to the decrease in this revenue category was a \$38 million decline in BC TEL's portion of long distance revenues shared with other Canadian telephone companies. This reduction was primarily the result of a non-recurring recovery of \$34 million in shared long distance revenues by BC TEL in 1993.

(\$ Millions)	1994	1993	Increase	% Change
Other	409.4	365.2	44.2	12.1

Higher revenues from BC TEL Services' subsidiaries accounted for \$34 million of the increase in this revenue category. This does not include the significant increase in cellular revenues which was reflected in the local service revenue category. ISM-BC and BC TEL Systems Support both recorded higher external and project-related revenues in 1994. BC TEL Advanced Communications reported higher revenues from Ubiquity interactive broadband services. Also contributing to the increase in 1994 were higher paging and Autotel service revenues. BC TEL Mobility Paging's customer base grew by 16% in 1994.

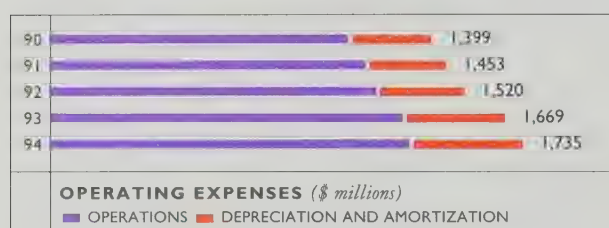
Directory advertising revenues increased \$7 million in 1994 due equally to an increase in Yellow Pages advertising rates and higher sales volumes. Uncollectible revenues, which are netted in this category, decreased \$3 million due primarily to an adjustment made in 1993 related to prior years.

Operating Expenses

Operating expenses increased 4.0% or \$66.0 million to \$1,734.8 million in 1994 from \$1,668.8 million in 1993.

(\$ Millions)	1994	1993	Increase	% Change
Operations	1,317.4	1,293.3	24.1	1.9

Reflecting significantly higher revenues from BC TEL Services' subsidiaries in 1994, related operations expenses increased \$35 million in 1994. BC TEL Mobility Cellular accounted for about one-half of this increase due to the higher costs of supporting a significantly larger customer base. ISM-BC and BC TEL Advanced Communications, in particular, also contributed to BC TEL Services' increase in operations expense.



Reflecting a continuing emphasis on cost base reduction, BC TEL's operations expense declined by \$25 million in 1994 compared to 1993. Contributing to this reduction were expenses incurred in 1993 but not repeated in 1994. They included \$22 million for early retirement and voluntary separation incentive costs, \$19 million in operating and other costs associated with BC TEL's subsidiary Microtel Limited which ceased operations in 1993, and \$11 million for write-offs of product development expenditures. Partially offsetting these cost reductions were higher advertising and marketing costs – particularly those associated with BC TEL's new telesales centre, increased systems development costs, higher directory-related costs and clerical job re-evaluation costs.

In late 1994, BC TELECOM decided to proceed with a corporate restructuring plan in early 1995. As a result of this decision, a \$14 million provision was included in operations expense in 1994 to cover the estimated corporate restructuring costs.

(\$ Millions)	1994	1993	Increase	% Change
Depreciation and amortization	417.4	375.5	41.9	11.2

The increase in depreciation and amortization expense in 1994 was due primarily to the continuing expansion of BC TELECOM's asset base. BC TEL accounted for \$30 million of the increase and BC TEL Services for the remaining \$12 million. BC TELECOM's composite depreciation rate increased just slightly to 7.1% in 1994 from 6.9% in 1993.

Other Income

(\$ Millions)	1994	1993	Decrease	% Change
Other income	11.9	23.3	(11.4)	(48.9)

This category is comprised of interest income, Telecom Leasing Canada's lease finance revenues and equity income from investments in affiliated companies. Interest income decreased by \$6 million in 1994 primarily because 1993 included interest received on tax reassessments finalized in that year. Also contributing to the reduction in other income was a decline of \$2 million in lease revenues from Telecom Leasing Canada, a decrease in equity income from CANAC-Microtel of \$1 million and other small reductions in other income totalling \$5 million. During 1994 the Company sold its 49% share of Prism Systems Inc. to Northern Telecom Limited. The gain on sale exceeded the Company's share of the decline in Prism's 1994 income by \$3 million, partially offsetting the above reductions in other income.

Income Taxes

(\$ Millions)	1994	1993	Increase	% Change
Income taxes	205.8	200.7	5.1	2.5

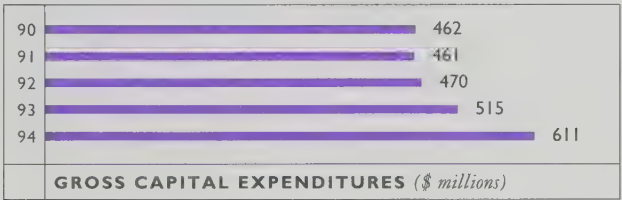
Higher pre-tax earnings increased income taxes by \$7 million in 1994. Partially offsetting this increase was a slight reduction in the effective income tax rate to 47.6% from 48.1% in 1993. A detailed reconciliation of the statutory income tax rate to the effective rate is included in Note 5 to the financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities, which is net earnings adjusted for non-cash items such as depreciation and deferred taxes, was \$562.8 million in 1994 compared to \$659.5 million in 1993. Although both net earnings and depreciation increased in 1994, cash from operations declined primarily because of differences in the timing of year-end payments between 1993 and 1994.

Investing Activities

Capital expenditures represent the single largest use of Company funds. These expenditures enable BC TELECOM to satisfy growth in service demand, increase the operating efficiency and productivity of both the wireline and wireless networks and introduce new products and services into an increasingly competitive marketplace.



Gross capital expenditures totalled \$611 million in 1994 compared to \$515 million in 1993. Expenditures to provide growth in basic telephone service increased to \$183 million from \$138 million in the previous year, resulting from continuing strong demand. This demand was satisfied by the installation of digital central office switches, remote switches connected to the central office by fibre optic links and additional facilities connecting subscribers to local switching offices. Expenditures for long distance facilities increased slightly to \$60 million, reflecting ongoing construction of the third Stentor high-density system that will provide a second fibre route to the Alberta border, construction of other fibre routes within the province, facilities for the Commonwealth Games and additional switching capacity. These facilities will allow BC TELECOM to handle the increasing numbers of long distance calls as well as the growing demand for broadband capability. Expenditures to modernize local and long distance switches rose to \$49 million in 1994 compared to \$22 million in 1993. By the end of 1994, the percentage of local lines served by digital switches had risen to 89%. Also included in 1994 expenditures was \$10 million for access arrangements for other providers of long distance services, up \$3 million from 1993.

Capital spending required to accommodate an expanding customer base was \$44 million for cellular operations and \$4 million for paging, increases of \$4 million and \$1 million respectively from 1993. ISM-BC, 75% owned by BC TELECOM, required capital investment of \$27 million, down by \$7 million from 1993, to expand its computer capacity.

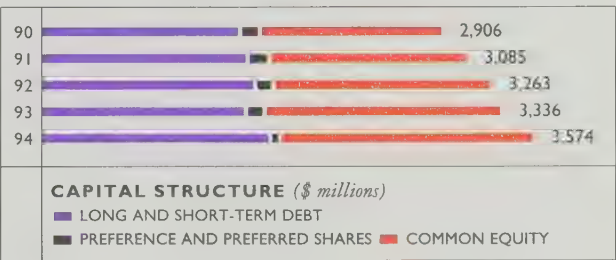
Dividends

Dividends to common shareholders totalled \$144.0 million, representing 65.5% of common share earnings in 1994. For the eighth consecutive year, the Company increased its common dividend. The quarterly rate was increased by 3.3% to \$.31 per share in the second quarter of 1994.

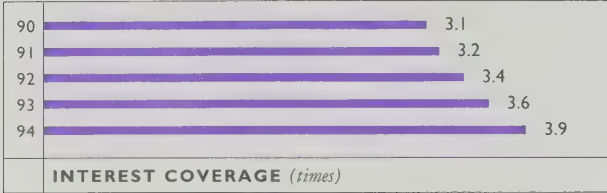


Financing Activities

In 1994, BC TELECOM issued 3.1 million common shares for \$70.2 million, primarily through the Dividend Reinvestment and Share Purchase Plan. BC TELECOM had \$69.1 million of commercial paper outstanding at year-end 1994, an increase of \$24.8 million from the \$44.3 million outstanding at the end of 1993. There were no issues of term debt for BC TELECOM in 1994.



In March 1994, BC TEL issued \$10 million in additional medium term notes. The notes mature on October 17, 1997 and have an interest rate that fluctuates with the 91-day Treasury bill rate. During 1994, BC TEL redeemed \$62.6 million of first mortgage bonds as permitted under the terms of the trust deed and \$67.8 million of preferred shares. BC TEL's outstanding commercial paper was \$270.3 million at year-end 1994. BC TEL had no commercial paper outstanding at the end of 1993.



Credit Ratings

On June 24, 1994, the Dominion Bond Rating Service (DBRS) downgraded the BC TELECOM debenture rating to A (high) from AA (low), the BC TEL First Mortgage Bond rating to AA (low) from AA, and the BC TEL Unsecured Debenture rating to A (high) from AA (low). The ratings on BC TELECOM commercial paper, BC TEL commercial paper and BC TEL preferred shares remained unchanged. All ratings are now reclassified to stable from negative. The downgrades reflect concerns regarding the outlook for the telecommunications industry and are not a result of company specific factors. These concerns include the increased business risk surrounding long distance competition and trends toward competition in other areas of the telecommunications business as well as the uncertain regulatory environment that the telephone companies will likely face for a number of years.

On October 31, 1994, the Canadian Bond Rating Service (CBRS) re-affirmed the ratings for BC TELECOM and BC TEL and changed its outlook to stable from negative.

The table below provides both agencies' current ratings for all rated BC TELECOM and BC TEL securities.

	CBRS	DBRS
BC TELECOM		
Debtentures	A (High)	A (high)
Commercial Paper	A-1	R-1 (middle)
BC TEL		
First Mortgage Bonds	A+ (High)	AA (low)
Debtentures	A+	A (high)
Commercial Paper	A-1+	R-1 (middle)
Preferred Shares	P-1	Pfd-1

REGULATORY AND LEGAL ENVIRONMENT

Regulatory Framework Decision and Subsequent Proceedings

On September 16, 1994, the CRTC issued Decision 94-19 setting out its findings with respect to the issues considered under the Review of Regulatory Framework proceeding initiated in 1992. In its decision, the CRTC set out a regulatory framework for BC TEL and other telephone companies, consisting of the following components:

- a transition from earnings regulation to price caps by January 1, 1998;
- the splitting of the rate base, effective January 1, 1995, into Utility and Competitive segments with only the Utility segment subject to earnings regulation; BC TEL's Utility segment will be subject to a regulated ROE range of 10.25% to 12.25%, with a targeted ROE of 11.25%;
- the immediate implementation of a Carrier Access Tariff (CAT) applicable to both the telephone companies and their competitors in long distance services, consisting of a contribution component applied on a per-minute basis, a component to cover the cost of bottleneck services (switching and aggregation), and a component for the recovery of start-up costs; competitors would continue to receive discounts on the contribution component in accordance with Decision 92-12;
- a rate rebalancing program allowing each telephone company to increase monthly basic local service rates by up to \$2 in each of 1995, 1996 and 1997 and reduce basic toll rates by a corresponding amount;
- a requirement that competitive network services offered by the telephone companies be subject to the CAT; imposing the CAT on other services (e.g., cellular, paging) will be considered in the future;
- regulatory forbearance effective January 1, 1995 for the terminal equipment market;
- immediate entry into the local telephone service market by alternative suppliers (including cable companies), with the telephone companies being required to file tariffs for co-location, open access and unbundling by the first quarter of 1995.

In the month following its release, Decision 94-19 became the subject of a number of appeals to the Federal Cabinet and to the CRTC itself from various interest groups. As a result of those appeals:

- The Federal Cabinet directed the CRTC to reconsider the rate rebalancing directives contained in Decision 94-19, and to undertake a comparison of telephone company costs with external U.S. benchmarks as part of that process. The CRTC was also directed to specifically look at the need for rate rebalancing on an individual telephone company basis and to ensure that the principle of affordable telephone service is not compromised. The CRTC is to report back to Cabinet by no later than October 31, 1995.
- The CRTC put a hold on its decision to make alternative long distance service providers subject to a per-minute contribution mechanism instead of the existing per-trunk contribution mechanism. Acknowledging that a uniform per-minute rate might adversely affect competitors' willingness to compete in the off-peak market, the CRTC suggested a "de-averaging" of the per-minute contribution mechanism into two rate components: one rate for peak minutes and another (at 50% less) for off-peak minutes. A public proceeding has been initiated to consider this alternative proposal and the timing of its implementation (no earlier than the third quarter of 1995 by the current schedule).

Other aspects of Decision 94-19, however, are proceeding as planned. In particular, the CRTC has initiated a proceeding:

- to split the rate base of the telephone companies into Utility and Competitive segments; and
- to determine 1995 contribution rates for long distance services under the resulting split rate base.

To accommodate the Federal Cabinet's directive and to address other concerns, the split rate base proceeding was subsequently expanded to:

- address Canada/U.S. cost comparisons for both local and long distance telephone services; and
- examine the telephone companies' broadband initiatives (including Beacon) to determine how much of that investment should be allocated to the Utility segment, and mechanisms to control the impact of such investments on basic local rates.

The hearing that is part of the expanded split rate base proceeding is scheduled to begin May 8, 1995.

Convergence Proceeding

In October 1994, the Federal Cabinet issued the framework for its Information Highway strategy, calling for an open network of networks with competition in facilities, products and services, to serve the policy objectives of (a) job creation, (b) Canadian sovereignty and cultural identity, and (c) universal accessibility and affordability. Coincident with the release of that strategy framework, the Governor-in-Council directed the CRTC to undertake a public consultation process to address such issues as:

- the appropriate time frame for implementing interconnection and interoperability between telecommunications and cable networks;
- the need, if any, for changes to statutes relating to "broadcasting" and "telecommunications";
- the appropriateness of granting telecommunications carriers eligibility to hold broadcast licenses; and
- the appropriate timeframe for removing barriers to fair competition in the delivery of telecommunications as well as broadcasting services.

Pursuant to the Cabinet's direction, the CRTC initiated a proceeding which will close with a public hearing beginning on March 6, 1995. The first stage of written evidence was filed on January 16, 1995. In a submission filed by Stentor, BC TEL joined other Stentor owner-companies in calling for immediate open entry into all Information Highway services (including cable TV), with appropriate changes to existing statutes as necessary, and convergence of regulatory frameworks for all participants.

Other Regulatory Issues

In keeping with its directives in favour of opening up telecommunications services to competition where such is consistent with the public interest, the CRTC in September, 1994 approved BC TEL's proposal to charge compensatory rates for its single-line inside wire installation activities and to give property owners the option of obtaining single-line inside wire from suppliers other than BC TEL. The Company did not propose any change to the current maintenance regime and will continue to provide no-charge maintenance for all single-line inside wire.

In addition to continued debate over contribution, our competitors have pressed the CRTC on another aspect of the long distance services market. As the result of an application from Unitel, the CRTC undertook a proceeding to re-consider its ruling in Decision 92-12 that balloting, a referendum process to canvass all customers for their choice of preferred interexchange carrier, is not necessary. That proceeding closed with final argument from all parties on September 30, 1994 and a decision is pending. Meanwhile, BC TEL implemented equal access, on a roll-out basis, from July to October, 1994.

Telecommunications Act – Regulations

On October 25, 1994, the federal government enacted new regulations under the Telecommunications Act entitled the "Canadian Telecommunications Common Carrier Ownership and Control Regulations". The purposes of these Regulations are: (i) to prescribe minimum levels of Canadian ownership and control for facilities – based telecommunications common carriers operating in Canada; and (ii) to give each of these carriers, or their holding companies such as BC TELECOM, the legal means to ascertain and monitor the level of Canadian ownership and control of the carrier and to take action to prevent the level of Canadian ownership and control from decreasing below the prescribed minimum level.

OUTLOOK

Revenues and Corporate Strategy

BC TELECOM continues to expect the demand for telecommunications products and services to grow in 1995 and beyond. The economic outlook for British Columbia is positive, with population growth continuing to exceed the national average and growth in the number of customer access lines in 1995 expected to remain above 4%. These factors should result in significant growth in the network access component of local service revenues despite the federal government's December 1994 decision to delay rate rebalancing pending a CRTC review. In addition, higher local service revenues are anticipated from cellular operations, competitor contribution payments and network management services such as call waiting, call display and call answer.

Long distance service revenues are expected to decline in 1995 due to the impact of competition and lower long distance prices, particularly as a result of discounted long distance calling packages for both business and residential customers. BC TEL is focused on retaining and winning back customers and keeping market share loss to a minimum. Actions in 1995 will include a major expansion of BC TEL's telesales centre and a restructuring of employee teams that service major business customers. BC TEL believes that its long distance market share will average 79% in 1995, down from 85% in 1994.

A major part of BC TELECOM's corporate strategy is to generate new revenues from non-traditional telecommunications sources, principally in BC TEL Mobility, Advanced Communications and other new business initiatives. Such new revenues are expected to more than offset the impact of competition in the long distance market as was the case in 1994. In addition, the CRTC's regulatory framework decision opened up a number of new business opportunities, many of which will be clarified or confirmed in regulatory proceedings in the first half of 1995. These events are likely to have a significant impact on future business investment decisions. However, BC TELECOM's vision remains to participate only in telecommunications and telecommunications-related markets.

Expenses

The most recent collective agreement between BC TEL and the Telecommunications Workers Union included general wage increases of 1% January 1, 1995 and 1.25% July 1, 1995. This agreement expires at the end of 1995. There is no increase in base salaries for management in 1995, with a provision for incentive payments if certain service and financial objectives are made.

The corporate restructuring plan outlined by BC TELECOM in January 1995, is the latest example of a continuing emphasis on positioning the Company to compete more efficiently and effectively, and to better serve customer needs. In addition to the newly-created network operations division, over the next 12 to 18 months there will be further organizational changes in BC TEL and BC TEL Services. Since the \$14 million cost associated with 1995's corporate restructuring was included in 1994 operating expenses, operating expenses in 1995 will reflect the full amount of the cost savings anticipated from restructuring.

Liquidity and Capital Resources

BC TELECOM has made substantial commitments for purchases as part of the planned construction program for 1995, and to a lesser extent for subsequent years. The Company estimates that gross capital expenditures will be \$650 million in 1995; for 1996 through 1999, planned annual investment is expected to range from \$655 million to \$670 million.

Approximately 75% of BC TELECOM's future spending is needed to meet the growth in demand for basic telecommunications, cellular and paging services. Expenditures will provide required access lines, switching equipment and facilities for both local and toll transport. Growth in the Company's transport network will be provided almost exclusively on fibre. New fibre links are being deployed throughout the province and reach to areas outside of British Columbia. Advanced electronic equipment is being provided to increase network survivability and to increase capacity and provide for additional bandwidth requirements. Projected spending for system modernization is over \$50 million in 1995; annual amounts ranging from \$25 to \$75 million in the 1996-1999 period will provide for installation of digital switches and facilities. By the end of 1997, virtually 100% of customer lines will be served by digital switches, compared to 89% in 1994. Significant investment is also expected for computer equipment additions and upgrades and in support of new telecommunications business initiatives.

BC TELECOM expects to continue financing the majority of its capital expenditure program with cash generated from operations. The dividend rate will be reviewed annually in light of prospective earnings and the Company's financial position. The Dividend Reinvestment and Share Purchase Plan will continue to provide an ongoing source of new equity capital. The Company anticipates that the need for additional external financing during the next few years will moderate as the funds generated by existing business activities increasingly satisfy the need for funds by both existing businesses and new business opportunities. BC TELECOM will be the primary source of financing for subsidiaries other than BC TEL.

BC TEL expects to maintain its interest coverage and capital structure at levels appropriate for the changing business environment. The prospectus covering the issue of medium term notes expired in October 1994 and was replaced by a medium term note debenture prospectus dated October 24, 1994. The debenture program covered by the prospectus provides for the issuance of \$500 million in unsecured debt, including any of the \$70 million of medium term notes now outstanding that may be exchanged for debentures with the same terms. All medium term note debentures are subject to the Debenture Trust Indenture dated May 31, 1990. On January 20, 1995, \$50 million in medium term note debentures were issued with a coupon rate of 9.35% and a maturity date of January 27, 1999. Redemptions and market purchases of first mortgage bonds and preferred shares will be undertaken in 1995 where such action is warranted.

Pending Litigation

An action commenced in 1993 by American Telephone and Telegraph Company (AT&T) and Unitel Communications Inc. in the Federal Court of Canada against MCI Communications Corporation (MCI), Stentor and most of its member companies, including BC TEL and others, alleging infringement or possible infringement of four patents is continuing. These patents include communications between switching equipment and databases for the purpose of providing a variety of intelligent network services, such as 800 Services™, Calling Card Services™ and virtual private network service.

The Plaintiffs are seeking a permanent injunction to enjoin the defendants from further use of the patents, as well as unspecified damages and an accounting for profits. This lawsuit is related to previous litigation instituted by MCI against AT&T in the U.S. to have those patents and others set aside as being unenforceable. BC TEL and the other defendants continue to jointly defend the action vigorously as well as counterclaim against the Plaintiffs.

While the damages, as claimed, are potentially substantial, BC TEL continues to believe that its defences are complete and that loss in a material amount is unlikely. Finally, BC TEL and others continue to be indemnified against most of these potential damages by the companies furnishing the products and technology, the use of which is the subject of this litigation.

MANAGEMENT REPORT

TO OUR SHAREHOLDERS:

Management is responsible to the Board of Directors for the preparation of the consolidated financial statements of the Company and its subsidiaries. These statements which have been prepared in accordance with generally accepted accounting principles necessarily include some amounts based on estimates and judgements. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal control which provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties and a comprehensive program of periodic audits by the internal auditors. The Company has also instituted policies and guidelines which require employees to maintain the highest ethical standards.

The independent auditors of the Company, Arthur Andersen & Co., have been appointed by the shareholders to express an opinion as to whether these consolidated financial statements present fairly the Company's consolidated financial position and operating results in accordance with generally accepted accounting principles. Their report follows.

The Board of Directors has reviewed and approved these consolidated financial statements. To assist the Board in meeting its responsibility, it has appointed an audit committee which is composed entirely of outside directors. The committee meets periodically with management, the internal auditors and the independent auditors to review internal accounting controls, audit results and accounting principles and practices. The committee's terms of reference are available, on request, to shareholders.



Vice-President and Chief Financial Officer

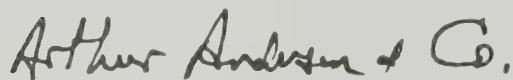
AUDITORS' REPORT

TO THE SHAREHOLDERS OF BC TELECOM INC.

We have audited the consolidated balance sheets of BC TELECOM Inc. (resulting from the reorganization of British Columbia Telephone Company) as at December 31, 1994 and 1993 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, the consolidated financial statements appearing on pages 41 to 52, inclusive, present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants
Vancouver, B.C.
January 25, 1995

CONSOLIDATED STATEMENT OF EARNINGS

Years Ended December 31 (\$ Millions)	1994	1993
OPERATING REVENUES		
Local service	\$ 970.7	\$ 867.0
Long distance service	915.3	977.4
Other (NOTE 2)	409.4	365.2
	<u>2,295.4</u>	<u>2,209.6</u>
OPERATING EXPENSES		
Operations	1,317.4	1,293.3
Depreciation and amortization	417.4	375.5
	<u>1,734.8</u>	<u>1,668.8</u>
OPERATING EARNINGS	560.6	540.8
Other income (NOTE 3)	11.9	23.3
Financing costs, net (NOTE 4)	139.8	147.1
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	432.7	417.0
Income taxes (NOTE 5)	205.8	200.7
EARNINGS BEFORE MINORITY INTEREST	226.9	216.3
Minority interest	2.4	1.7
NET EARNINGS	224.5	214.6
Preference and preferred share dividends	4.7	8.8
COMMON SHARE EARNINGS	<u>\$ 219.8</u>	<u>\$ 205.8</u>
EARNINGS PER COMMON SHARE	\$ 1.88	\$ 1.81
AVERAGE COMMON SHARES OUTSTANDING (Thousands)	117,028	113,760

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years Ended December 31 (\$ Millions)	1994	1993
Balance at beginning of year	\$ 722.5	\$ 652.2
Net earnings	224.5	214.6
	947.0	866.8
Less – Preference and preferred share dividends	4.7	8.8
– Common share dividends	144.0	135.5
– Premium on redemption of preferred shares (NOTE 12C)	1.3	—
Balance at end of year	<u>\$ 797.0</u>	<u>\$ 722.5</u>

CONSOLIDATED BALANCE SHEET

December 31 (\$ Millions)

1994

1993

ASSETS
CURRENT ASSETS

Cash and temporary investments	\$ 6.0	\$ —
Accounts receivable (NOTE 6)	469.3	393.7
Prepaid expenses and other	46.0	31.0
	<u>521.3</u>	<u>424.7</u>

OTHER ASSETS

Leases receivable	25.8	30.0
Deferred charges (NOTE 7)	35.0	33.4
Investments (NOTE 8)	37.2	56.5
Goodwill	14.9	16.2
	<u>112.9</u>	<u>136.1</u>

PROPERTY, PLANT AND EQUIPMENT

Buildings, plant and equipment, net (NOTE 9)	3,521.7	3,339.8
Land	39.9	39.4
Property under construction	122.0	114.5
Materials and supplies	59.2	60.0
	<u>3,742.8</u>	<u>3,553.7</u>
	<u>\$ 4,377.0</u>	<u>\$ 4,114.5</u>

LIABILITIES AND SHAREHOLDERS' EQUITY
CURRENT LIABILITIES

Cheques issued in excess of bank balances net of temporary investments	\$ —	\$ 5.0
Short-term obligations (NOTE 10)	367.6	135.0
Accounts payable and accrued liabilities	374.5	318.7
Income taxes payable	—	25.2
Dividends payable	37.4	36.2
Advance billings and customer deposits	71.0	63.2
	<u>850.5</u>	<u>583.3</u>

OTHER

Long-term debt (NOTE 11)	1,264.4	1,335.1
Deferred income taxes	303.9	305.5
Other long-term liabilities	16.7	24.6
	<u>1,585.0</u>	<u>1,665.2</u>

MINORITY INTEREST

	<u>1.7</u>	<u>3.9</u>
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SHAREHOLDERS' EQUITY (NOTE 12)

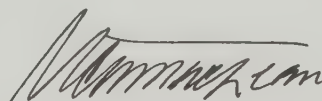
Common equity	1,869.2	1,723.7
Preference and preferred shares	70.6	138.4
	<u>1,939.8</u>	<u>1,862.1</u>

COMMITMENTS AND CONTINGENT LIABILITIES (NOTE 14)

	<u>\$ 4,377.0</u>	<u>\$ 4,114.5</u>
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Approved by the Directors,


 Director


 Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Years Ended December 31 (\$ Millions)

	1994	1993
OPERATING ACTIVITIES:		
Net earnings	\$ 224.5	\$ 214.6
Depreciation and amortization	417.4	375.5
Deferred income taxes	(1.6)	3.1
Allowance for funds used during construction	(8.8)	(9.7)
Gain on sale of Prism Systems Inc.	(13.2)	—
Other, net	(4.5)	22.9
	613.8	606.4
(Increase) decrease in non-cash working capital (NOTE 13)	(51.0)	53.1
Cash from operations	562.8	659.5
Less – Dividends to shareholders	148.7	144.3
	414.1	515.2
FINANCING ACTIVITIES:		
Common shares issued	70.2	66.3
Long-term debt issued	16.9	244.4
Change in short-term notes payable	286.0	(225.8)
Redemptions of long-term debt	(141.0)	(75.0)
Redemptions of preference and preferred shares	(68.3)	(7.6)
Other	(1.2)	(.8)
	162.6	1.5
INVESTING ACTIVITIES:		
Capital expenditures, net	(602.6)	(505.6)
Decrease (increase) in materials and supplies capitalized	.8	(6.9)
Salvage value of plant retired, net	8.3	(6.4)
Increase in investments and other assets	(8.4)	(10.2)
Proceeds on disposition of Prism Systems Inc.	32.0	—
Decrease in long-term leases receivable	4.2	15.8
	(565.7)	(513.3)
CASH POSITION:		
Net increase during the year	11.0	3.4
Beginning of year	(5.0)	(8.4)
End of year	6.0	(5.0)
REPRESENTED BY:		
Cash (cheques issued in excess of bank balances)	2.7	(38.0)
Temporary investments	3.3	33.0
	\$ 6.0	\$ (5.0)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry. These statements conform in all material respects with International Accounting Standards.

On May 1, 1993 BC TEL (formerly British Columbia Telephone Company) carried out its restructuring plan for the BC TEL Group. The restructuring included the transfer to BC TELECOM Inc. by BC TEL of its investments in most of its subsidiary companies as well as the establishment of BC TELECOM Inc. as the parent corporation of BC TEL through an arrangement under the Canada Business Corporations Act. Under the restructuring, holders of BC TEL ordinary shares became holders of BC TELECOM Inc. common shares on a one-for-one basis.

The consolidated financial statements of BC TELECOM Inc. immediately after the restructuring are virtually identical to the corresponding statements of BC TEL prior to the restructuring. For periods prior to the effective date of the restructuring, the BC TEL consolidated financial statements constitute, for comparative financial reporting purposes, the consolidated financial statements of BC TELECOM Inc.

The term "Company" is used to mean BC TELECOM Inc. and, where the context of the narrative permits or requires, its subsidiaries.

BC TELECOM Inc. operates in a single industry segment which is telecommunications services. The Company's principal subsidiary, BC TEL, is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC). In its role as regulator, the CRTC sets allowable rates of return, approves equity financing, approves tariffs for certain goods and services and periodically issues directives which affect the accounting treatment of specific items in BC TEL's accounts.

(A) CONSOLIDATION

The consolidated financial statements include the accounts of all the Company's subsidiaries of which the principal ones are BC TEL, B.C. Mobile Ltd., BC TEL Mobility Cellular Inc., BC TEL Systems Support Inc., Canadian Telephones and Supplies Ltd., MPR Teltech Ltd., Telecom Leasing Canada (TLC) Limited and ISM Information Systems Management (B.C.) Corporation (75%).

All significant intercompany transactions have been eliminated except for the acquisition of telecommunications equipment and supplies by BC TEL from affiliated companies which are capitalized at BC TEL's cost in the consolidated balance sheet, and included in the consolidated statement of earnings. To the extent that any income on these sales has not been offset by depreciation and other operating expenses, it remains in consolidated earnings and retained earnings.

(B) GOODWILL

Goodwill, which represents the excess of the cost of acquired business over the fair value attributed to the net identifiable assets, is amortized over 15 years.

(C) PROPERTY, PLANT AND EQUIPMENT (PROPERTY)

Property is recorded at historical cost and, with respect to self-constructed property, includes materials, direct labour and certain overhead costs. In addition, the Company capitalizes an amount for the cost of funds used to finance construction. This allowance for funds used during construction is based on BC TEL's regulated rate of return on average invested capital for the previous year, and is included in income as an offset against financing costs. For new telecommunications property, the capitalization rate for 1994 was 10.89% (10.93% - 1993).

The original cost of retired telecommunications property is charged to accumulated depreciation, and any proceeds on disposition are taken into income.

(D) DEPRECIATION

Depreciation rates for property are determined by a continuing program of engineering studies for each class of property, according to year of placing in service and estimated useful life. This is in compliance with regulatory requirements. Depreciation provisions are calculated on a straight-line basis incorporating these studies.

(E) INCOME TAXES

The Company and its subsidiaries use the tax allocation basis of accounting for income taxes. Deferred income taxes are provided for on timing differences between accounting income and taxable income.

The Company's regulated subsidiary, in accordance with industry practice for telephone companies subject to CRTC regulation, follows the modified liability method of income tax allocation. This method requires that the balance of deferred income taxes be adjusted for changes in tax rates.

(F) TRANSLATION OF FOREIGN CURRENCIES

Trade transactions completed in foreign currencies are reflected in Canadian dollars at the rates prevailing at the time of the transactions. Amounts payable and receivable in foreign currencies are reflected in the consolidated financial statements in equivalent Canadian dollars at the rate of exchange prevailing at the balance sheet date.

(G) LEASES

Leases are classified as capital or operating depending upon the terms and conditions of the contracts.

Where the Company's subsidiary, Telecom Leasing Canada (TLC) Limited, is the lessor, it acts as a financing intermediary. The long-term leases receivable represent the present value of future lease payments receivable due beyond one year. Finance income derived from these financing leases is recorded so as to produce a constant rate of return over the terms of the leases.

Revenue from operating leases of equipment is recognized as service is rendered to customers. Total operating lease rental revenue in 1994 was \$73.7 million (\$80.8 million – 1993). The leased equipment is depreciated in accordance with the Company's existing depreciation policy.

Where the Company is the lessee, asset values recorded under capital leases are amortized on a straight-line basis over the term of the lease. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

(H) RESEARCH AND DEVELOPMENT

Product development expenditures are directly expensed to income unless they meet certain identifiable criteria for deferral. In 1993, \$2.6 million of expenditures were deferred and \$7.0 million of previously deferred costs were amortized to expense.

The amount charged directly to expense for research, development and improvement of new and existing products and services was \$9.2 million in 1994 (\$19.9 million – 1993).

2. OTHER REVENUES

(\$ Millions)	1994	1993
Service and equipment sales	\$ 173.3	\$ 151.8
Directory advertising	143.4	137.0
Research and development	65.3	63.8
Other	27.4	12.6
	<u>\$ 409.4</u>	<u>\$ 365.2</u>

3. OTHER INCOME

(\$ Millions)	1994	1993
Lease finance income	\$ 7.9	\$ 9.5
Interest income	.9	7.2
Equity (loss) income	(6.6)	4.4
Gain on sale of Prism Systems Inc.	13.2	—
Other, net	(3.5)	2.2
	<u>\$ 11.9</u>	<u>\$ 23.3</u>

4. FINANCING COSTS, NET

(\$ Millions)	1994	1993
Interest on long-term debt	\$ 130.9	\$ 141.0
Other interest	17.7	15.8
	<u>148.6</u>	<u>156.8</u>
Less – Allowance for funds used during construction	8.8	9.7
	<u>\$ 139.8</u>	<u>\$ 147.1</u>

5. INCOME TAXES

(\$ Millions)	1994	1993
Current	\$ 207.4	\$ 197.6
Deferred	(1.6)	3.1
	<u>\$ 205.8</u>	<u>\$ 200.7</u>

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	1994	1993
Combined basic federal and provincial statutory income tax rate	45.3%	45.1%
Federal large corporation capital tax	1.1	1.0
Allowance for funds used during construction	.4	.2
Income tax allocation adjustment	(.1)	(1.1)
Deferred income tax effect of provincial tax rate increase	—	.8
Pension adjustment	—	.7
Equity loss (income)	1.1	(.3)
Other	(.2)	1.7
Effective income tax rate per Consolidated Statement of Earnings	<u>47.6%</u>	<u>48.1%</u>

The provincial tax rate increased .5% on July 1, 1993, increasing BC TEL's deferred income taxes by \$3.3 million in that year. This increase was charged directly to income tax expense.

6. ACCOUNTS RECEIVABLE

(\$ Millions)	1994	1993
Trade receivables	\$ 337.3	\$ 317.6
Current portion of leases receivable	33.8	33.5
Note receivable from sale of Prism Systems Inc.	22.2	—
Income taxes receivable	10.5	—
Other	65.5	42.6
	<u>\$ 469.3</u>	<u>\$ 393.7</u>

7. DEFERRED CHARGES

(\$ Millions)	1994	1993
Pension plan contributions in excess of charges to income	\$ 15.9	\$ 12.1
Cost of issuing debt securities, less amortization	13.1	14.5
Other	6.0	6.8
	<u>\$ 35.0</u>	<u>\$ 33.4</u>

8. INVESTMENTS

(\$ Millions)	1994	1993
Investments carried at cost:		
Alouette Telecommunications Inc.	\$ 29.6	\$ 25.1
PMC Sierra, Inc.	3.0	3.0
Other	2.1	1.7
Investments carried at equity:		
Prism Systems Inc.	—	26.2
CANAC-Microtel Joint Venture (50%)	2.0	.5
Other	.5	—
	<u>\$ 37.2</u>	<u>\$ 56.5</u>

On November 10, 1994, the Company sold its 49% interest in Prism Systems Inc. to Northern Telecom Limited for \$32.0 million.

9. BUILDINGS, PLANT AND EQUIPMENT, NET

(\$ Millions)	Cost	Accumulated Depreciation	Net Book Value	
			1994	1993
Telecommunications assets	\$ 4,577.3	\$ 2,006.8	\$ 2,570.5	\$ 2,455.9
Assets leased to customers	543.4	216.1	327.3	309.7
Buildings	491.1	155.3	335.8	331.7
Assets under capital lease	60.4	20.1	40.3	40.5
Other	463.4	215.6	247.8	202.0
	<u>\$ 6,135.6</u>	<u>\$ 2,613.9</u>	<u>\$ 3,521.7</u>	<u>\$ 3,339.8</u>

The composite depreciation rate was 7.11% for 1994 (6.92% – 1993).

10. SHORT-TERM OBLIGATIONS

Amounts due for redemption within one year including short-term indebtedness pending permanent financing are as follows:

(\$ Millions)	1994	1993
Notes payable under commercial paper program		
issued at an average rate of interest of 6.08%	\$ 339.4	\$ 53.4
Current maturities of long-term debt	28.2	81.6
	<u>\$ 367.6</u>	<u>\$ 135.0</u>

At December 31, 1994, the Company had in place available operating lines of credit totalling \$542.5 million (\$556.2 million – 1993).

In the ordinary course of managing its debt, the Company and its subsidiaries use various financial instruments, which are not reflected on the balance sheet, to reduce or eliminate exposure to interest rate risks. Interest rate swaps, caps and swaptions are used to hedge or reduce the exposure to floating interest rates associated with short-term obligations. At December 31, 1994, a total of \$186.6 million in interest rate swaps and forward rate agreements was outstanding (\$212.5 million – 1993).

II. LONG-TERM DEBT

(A) DETAILS OF LONG-TERM DEBT

(\$ Millions)			1994	1993
Series	Rate	Maturity		
BC TELECOM Inc. Debentures				
1	7.25%	July 15, 1998	\$ 175.0	\$ 175.0
BC TEL First Mortgage Bonds				
AD	10 1/4%	October 15, 2001	59.4	59.4
AE	9.70%	June 15, 1999	—	49.5
AF	9 7/8%	November 1, 2003	74.3	74.3
AK	6%	February 15, 1999	30.0	40.6
AL	11.35%	November 15, 2005	121.2	122.5
AM	9.50%	May 12, 1994	—	50.0
AN	10.50%	June 12, 2000	121.2	122.5
			406.1	518.8
BC TEL Debentures				
1	12%	May 31, 2010	50.0	50.0
2	11.90%	November 22, 2015	125.0	125.0
3	10.65%	June 19, 2021	175.0	175.0
4	9.15%	April 8, 2002	100.0	100.0
5	9.65%	April 8, 2022	150.0	150.0
			600.0	600.0
BC TEL Medium Term Notes				
1	8%	February 15, 1998	60.0	60.0
2	Floating	October 17, 1997	10.0	—
			70.0	60.0
Other Long-Term Debt				
Issued at varying rates of interest from 9% to 12% and maturing on varying dates up to 2001			20.2	29.9
Capital Leases (NOTE 14B)				
Issued at varying rates of interest up to 12.89% and maturing on varying dates up to 2000			21.3	33.0
Total debt			1,292.6	1,416.7
Less – Current maturities			28.2	81.6
Long-Term Debt			<u>\$ 1,264.4</u>	<u>\$ 1,335.1</u>

II. LONG-TERM DEBT *(continued)*

(B) BC TELECOM INC. DEBENTURE ISSUE REQUIREMENTS

BC TELECOM Inc.'s debentures are issued under a Trust Indenture dated July 15, 1993 and are not secured by any mortgage, pledge or other charge. New issues of unsecured debt are subject to restrictions as to debt ratio and ownership of subsidiary companies. The Debentures may not be redeemed prior to maturity.

(C) BC TEL FIRST MORTGAGE BOND ISSUE REQUIREMENTS

BC TEL's property is subject to liens under the Deed of Trust and Mortgage dated March 1, 1946 under which the First Mortgage Bonds are issued. The Deed of Trust and Mortgage requires either an annual sinking fund payment of 1% of the original principal amount of bonds outstanding or the pledge of additional unmortgaged property in the amount of 1.5% of the principal. In 1994, sinking fund payments were made in respect of the Series AL and AN First Mortgage Bonds.

(D) BC TEL DEBENTURE ISSUE REQUIREMENTS

Debentures are issued under the Trust Indenture dated May 31, 1990 and are not secured by any mortgage, pledge or other charge. While the Trust Indenture is in effect, further issues of First Mortgage Bonds are not permitted. New issues of unsecured debt are subject to restrictions as to debt ratio and interest coverage as defined in the Trust Indenture.

(E) BC TEL MEDIUM TERM NOTE DEBENTURE PROGRAM

Under the terms of the medium term note debenture prospectus, a total of \$500.0 million in medium term notes may be issued prior to October 24, 1996. The notes will have maturities, interest rates and other features determined at the time of issue.

(F) RETRACTION/EXCHANGE PROVISIONS ON BC TEL DEBT

The Series AD Bonds may be redeemed after October 15, 1995 at the specified redemption premium.

The outstanding debentures may not be redeemed prior to maturity.

The Series 4 Debentures are exchangeable, at the holder's option, effective on April 8 of any year during the four-year period from 1996 to 1999, for an equal principal amount of Series 5 Debentures.

(G) LONG-TERM DEBT MATURITIES

Long-term debt maturities, excluding capital lease maturities, during each of the next five years are:

(\$ Millions)

1995	\$	18.4
1996		1.2
1997		10.0
1998		235.4
1999		30.0

12. SHAREHOLDERS' EQUITY

(A) DETAILS OF SHAREHOLDERS' EQUITY

(\$ Millions)		1994	1993
Common equity			
118,036,158 shares outstanding without par value (114,986,294 shares – 1993)		\$ 1,065.0	\$ 994.8
Retained earnings		797.0	722.5
Contributed surplus		7.2	6.4
		<u>1,869.2</u>	<u>1,723.7</u>
BC TEL Preference and Preferred, cumulative			
	<i>Redemption Premium</i>		
\$6.00 Preference	10.0%	.8	1.0
\$4.375 Preferred	4.0%	5.8	6.0
\$4.50 Preferred	4.0%	4.8	5.0
\$4.75 Preferred	5.0%	7.1	7.5
\$4.75 Preferred (Series 1956)	4.0%	7.1	7.5
\$5.15 Preferred	5.0%	11.5	12.0
\$5.75 Preferred	4.0%	9.8	10.0
\$6.00 Preferred	5.0%	4.3	4.5
\$1.21 Preferred	4.0%	19.4	20.0
\$1.70 Preferred	—	—	10.0
\$1.76 Preferred	—	—	20.0
\$1.85 Preferred	—	—	20.8
\$1.9125 Preferred	—	—	14.1
		<u>70.6</u>	<u>138.4</u>
Total Equity		<u>\$ 1,939.8</u>	<u>\$ 1,862.1</u>

(B) AUTHORIZED CAPITAL

BC TELECOM Inc. is authorized to issue an unlimited number of common shares, an unlimited number of first preferred shares and an unlimited number of second preferred shares.

(C) CHANGES DURING 1994

Common shares

The Company issued 2,769,492 shares during 1994 (3,205,741 – 1993) for \$64.7 million (\$63.0 million – 1993) through the Dividend Reinvestment and Share Purchase Plan. The Company issued 280,372 shares during 1994 (184,850 – 1993) for \$5.5 million (\$3.3 million – 1993) through the Long-Term Incentive Share Option Plan (LISOP).

Preference and Preferred shares

On February 25, 1994, BC TEL redeemed 833,010 of \$1.85 preferred shares (207,600 – 1993) with a par value of \$20.8 million (\$5.2 million – 1993) and 564,905 of \$1.9125 preferred shares (109,455 – 1993) with a par value of \$14.1 million (\$2.7 million – 1993).

On April 1, 1994, BC TEL redeemed the \$1.70 preferred shares with a par value of \$10.0 million at a price of \$26.50 per share in accordance with the terms of redemption. The premium of \$.6 million was charged to retained earnings.

On April 1, 1994, BC TEL redeemed the \$1.76 preferred shares with a par value of \$20.0 million at a price of \$25.875 per share in accordance with the terms of redemption. The premium of \$.7 million was charged to retained earnings.

In accordance with the April 26, 1994 issuer bid, BC TEL redeemed 45,510 of the remaining series of shares with a par value of \$2.9 million.

12. SHAREHOLDERS' EQUITY *(continued)*

(D) COMMON SHARES RESERVED

At December 31, 1994 the following shares remained reserved:

- 3,203,136 shares for issuance under the Dividend Reinvestment and Share Purchase Plan. The purchase price for the plan is based on the average market price in the calendar month immediately preceding the investment date.
- 889,903 shares under the LISOP. Under the terms of the LISOP, the Company has granted key employees options to purchase common shares at fixed exercise prices as follows:

<i>Year Options Granted</i>	<i>Options Granted</i>	<i>Options Outstanding</i>	<i>Exercise Price</i>
1994	293,756	291,656	\$ 23.75 – 26.25
1993	444,300	326,900	19.25 – 21.25
1992	263,725	167,822	19.375 – 22.125
1991	270,600	98,400	19.125 – 20.00

Options granted may be exercised over specific periods not to exceed 10 years from the date granted.

13. WORKING CAPITAL

(Increase) decrease in non-cash working capital:

<i>(\$ Millions)</i>	<i>1994</i>	<i>1993</i>
Accounts receivable	\$ (75.6)	\$ (45.5)
Prepaid expenses and other	(15.0)	.5
Accounts payable and accrued liabilities	55.8	65.1
Income taxes payable	(25.2)	25.2
Dividends payable	1.2	2.0
Advance billings and customer deposits	7.8	5.8
	<u>\$ (51.0)</u>	<u>\$ 53.1</u>

14. COMMITMENTS AND CONTINGENT LIABILITIES

(A) The Company estimates capital expenditures for additional property to be \$650 million in 1995. Substantial purchase commitments have been made in connection with these expenditures.

(B) The Company occupies leased premises in various centres and has land, buildings and equipment under operating leases.

At December 31, 1994, the future minimum lease payments under capital leases and operating leases were:

<i>(\$ Millions)</i>	<i>Capital Leases</i>	<i>Operating Leases</i>
1995	\$ 6.8	\$ 14.2
1996	6.3	11.0
1997	5.9	8.8
1998	4.2	7.4
1999	3.2	5.7
Thereafter	.9	123.1
Total future minimum lease payments	27.3	<u>\$ 170.2</u>
Less imputed interest	6.0	
Capital lease liability	<u>\$ 21.3</u>	

14. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(c) The Company intends to exercise an option to exchange its minority investment in a private company for common shares of a publicly traded company. This transaction is subject to the approval of the related registration statement by the United States Securities and Exchange Commission and the approval of the issuance of new common shares by the publicly traded company's shareholders. Any gain arising from the transaction will be accounted for in the period in which settlement occurs.

15. PENSION PLANS

Pension plans are maintained for substantially all employees. The Telecommunications Workers Union sponsored pension plan for bargaining unit employees requires the Company to contribute a fixed percentage of employee gross earnings to trust funds.

Actuarial valuations are prepared for Company sponsored plans and the Company pays into trust funds the amounts recommended by the actuary.

Accrued pension costs for accounting purposes are determined in accordance with generally accepted accounting principles, using management's best estimate assumptions of future events. Adjustments arising from plan amendments, changes in assumptions, experience gains and losses and the initial net plan assets and obligations are amortized over the expected average remaining service life of the employee group covered by the plans. The total pension expense amounted to \$69.2 million in 1994 (\$77.2 million – 1993). The cumulative difference between the amount contributed to the pension plans and the amount charged to income is recorded in the consolidated balance sheet under deferred charges.

Based on the actuarial reports of the Company-sponsored pension plans, which used projected employee earnings in estimating the accrued pension obligations and market related value for asset valuation, a comparison of the plan assets and plan obligations projected to December 31, 1994 has been estimated as follows:

(\$ Millions)	1994	1993
Actuarial value of assets	\$ 698.2	\$ 625.9
Actuarial value of obligations	743.0	673.7
Unfunded deficit	<u>\$ (44.8)</u>	<u>\$ (47.8)</u>

16. RELATED PARTY TRANSACTIONS

Transactions with related parties, primarily affiliates of GTE Corporation, were purchases and sales of telecommunications technology, equipment and supplies, research and development revenues, directory advertising commissions and payments for services rendered under cost-sharing agreements. During the year the Company purchased goods and services from related parties amounting to \$59.3 million (\$49.3 million – 1993). Sales to related parties amounted to \$12.8 million (\$8.2 million – 1993).

17. PRIOR YEAR PRESENTATION

The 1993 amounts have been reclassified, where applicable, to conform with the 1994 presentation.

18. SUBSEQUENT EVENT

On January 20, 1995, BC TEL issued \$50.0 million in medium term note debentures with a coupon rate of 9.35% maturing January 27, 1999.

	1994	1993	1992	1991	1990
CONSOLIDATED STATISTICS					
STATEMENT OF EARNINGS (\$ Millions)					
Operating revenues	\$ 2,295.4	\$ 2,209.6	\$ 2,037.2	\$ 1,935.8	\$ 1,843.4
Local service	970.7	867.0	778.2	698.7	643.7
Long distance service	915.3	977.4	898.4	920.1	900.1
Other	409.4	365.2	360.6	317.0	299.6
Operating expenses	1,734.8	1,668.8	1,520.0	1,453.3	1,398.5
Financing costs, net	139.8	147.1	144.1	144.8	138.2
Income taxes	205.8	200.7	180.0	154.9	134.8
Net earnings	224.5	214.6	205.7	201.0	193.2
Common share earnings	219.8	205.8	196.7	191.2	180.6
BALANCE SHEET (\$ Millions)					
Property, plant and equipment, at cost	\$ 6,356.7	\$ 5,883.9	\$ 5,487.5	\$ 5,173.2	\$ 4,980.5
Accumulated depreciation	2,613.9	2,330.2	2,088.6	1,912.2	1,850.6
Total capitalization	3,573.5	3,336.1	3,263.4	3,084.5	2,906.4
Capital structure					
Short-term obligations	10.3%	4.0%	9.3%	10.0%	6.5%
Long-term debt	35.4%	40.0%	37.5%	37.6%	42.2%
Preference and preferred shares	2.0%	4.2%	4.5%	5.0%	5.5%
Common share equity	52.3%	51.8%	48.7%	47.4%	45.8%
FINANCIAL					
Earnings per common share	\$ 1.88	\$ 1.81	\$ 1.78	\$ 1.78	\$ 1.72
Dividends declared per common share	\$ 1.23	\$ 1.19	\$ 1.15	\$ 1.10	\$ 1.02
Common equity per share	\$ 15.84	\$ 14.99	\$ 14.22	\$ 13.42	\$ 12.59
Return on common equity	12.2%	12.4%	13.0%	13.8%	14.1%
Return on equity for regulatory purposes	12.0%	12.0%	12.4%	13.6%	13.0%
Interest coverage (Times)	3.9	3.6	3.4	3.2	3.1
Average shares outstanding (Thousands)	117,028	113,760	110,499	107,594	104,857
OTHER					
Capital expenditures, gross (\$ Millions)	\$ 611.4	\$ 515.3	\$ 469.8	\$ 460.7	\$ 461.6
Customer access lines in service (Thousands)	2,264	2,172	2,080	1,988	1,912
Customer lines served by digital switches	89%	84%	79%	77%	75%
Long distance switched conversation minutes (Millions)	2,623	2,456	2,301	n/a	n/a
Regular full-time employees at year end	13,797	13,478	14,524	15,015	14,997
CELLULAR OPERATIONS STATISTICS					
Customers	148,062	106,582	81,344	62,289	44,504
Penetration rate	4.8%	3.7%	3.1%	2.6%	1.9%
Estimated market share	56%	56%	56%	56%	55%
Average monthly revenue per customer	\$ 95	\$ 95	\$ 94	\$ 95	\$ 99
Cash flow margin	51%	49%	46%	42%	41%
Net earnings (\$ Millions)	\$ 24.6	\$ 16.8	\$ 10.4	\$ 6.1	\$ 4.5
Return on equity	34%	33%	28%	24%	31%
Gross plant in service per customer	\$ 1,350	\$ 1,479	\$ 1,479	\$ 1,534	\$ 1,496
Monthly deactivations (churn rate)	1.5%	1.6%	1.7%	1.9%	1.5%
OTHER STATISTICS					
MPR Teltech revenues					
Total (\$ Millions)	\$ 76.4	\$ 78.3	\$ 62.5	\$ 58.0	\$ 49.7
From external customers	88%	87%	61%	55%	49%
Paging operations					
Number of pagers	77,077	66,657	59,577	19,112	17,050
Cash flow margin	40.3%	40.8%	37.9%	12.3%	19.4%

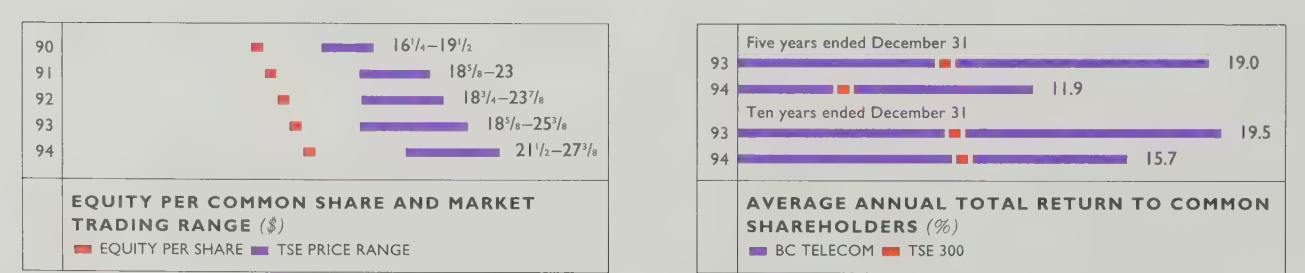
NOTE: Prior period statistics have been reclassified, where significant, to conform with the 1994 presentation.

INVESTOR INFORMATION

	Three Months Ended				
(\$ Millions)	Mar. 31	June 30	Sept. 30	Dec. 31	1994
QUARTERLY FINANCIAL DATA					
OPERATING REVENUES	\$ 550.5	\$ 562.3	\$ 586.2	\$ 596.4	\$ 2,295.4
OPERATING EXPENSES	415.3	417.3	430.0	472.2	1,734.8
OPERATING EARNINGS	135.2	145.0	156.2	124.2	560.6
Other income	1.4	.6	.3	9.6	11.9
Financing costs, net	36.3	33.3	35.2	35.0	139.8
EARNINGS BEFORE INCOME TAXES					
AND MINORITY INTEREST	100.3	112.3	121.3	98.8	432.7
Income taxes	49.2	54.0	57.8	44.8	205.8
EARNINGS BEFORE MINORITY INTEREST	51.1	58.3	63.5	54.0	226.9
Minority interest	.6	.5	.6	.7	2.4
NET EARNINGS	50.5	57.8	62.9	53.3	224.5
Preference and preferred share dividends	1.8	1.1	.9	.9	4.7
COMMON SHARE EARNINGS	\$ 48.7	\$ 56.7	\$ 62.0	\$ 52.4	\$ 219.8
EARNINGS PER COMMON SHARE	\$.42	\$.49	\$.52	\$.45	\$ 1.88
AVERAGE COMMON SHARES					
OUTSTANDING (Thousands)	116,073	116,638	117,376	118,024	117,028

	1994	1993
COMMON SHARE STATISTICS		
Number of registered common shareholders	13,096	13,735
Number of shares outstanding at December 31	118,036,158	114,986,294
Volume of shares traded	10,361,678	13,262,100
The Toronto Stock Exchange price range (high-low)		
First Quarter	\$ 26 3/4 – 24	\$ 21 3/8 – 18 5/8
Second Quarter	26 – 21 1/2	21 3/8 – 18 3/4
Third Quarter	27 3/8 – 22 5/8	22 3/4 – 20 3/8
Fourth Quarter	26 1/4 – 22 1/2	25 3/8 – 21 3/8

Geographic Distribution (%)	Shareholders		Shares	
	1994	1993	1994	1993
British Columbia	56.0	55.7	8.6	9.4
Other Canadian	41.8	41.7	89.4	89.4
Foreign	2.2	2.6	2.0	1.2



PRINCIPAL OWNERSHIP

At December 31, 1994, Anglo-Canadian Telephone Company of Montreal (a wholly-owned subsidiary of GTE Corporation) owned 59,570,720 shares, or 50.5% of the total common shares outstanding.

DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

The Company maintains a plan whereby holders of all classes of shares can elect to acquire common shares through automatic reinvestment of dividends and investment of optional contributions. The plan provides a discount of 5% on the price of common shares purchased with reinvested common share dividends and allows for optional contributions of up to \$20,000 per calendar year for the purchase of additional common shares. Further information is available by contacting Montreal Trust Company.

COMMON SHARE DIVIDENDS

Dividends are payable quarterly on the first day of January, April, July and October. In 1994, dividends declared amounted to \$.30 per share for the first quarter, increasing to \$.31 for the second, third and fourth quarters, for an annual total of \$1.23.

DIRECT DEPOSIT SERVICE

Holders of all classes of shares can have their dividends deposited directly to their bank accounts. To utilize this service, contact Montreal Trust Company.

MARKET TRADING

Shares are listed for trading on the Toronto, Montreal and Vancouver Stock Exchanges. The common share symbol is BCT.

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company

DUPLICATE ANNUAL REPORTS

Every effort has been made to eliminate duplications in our shareholders' mailing list. However, if you have more than one holding you will receive a separate report for each registration unless your shares are registered under exactly the same name.

ANNUAL MEETING

BC TELECOM's multi-site Annual General Meeting of Shareholders will be held Wednesday, April 26, 1995, concurrently at 10:00 a.m. Pacific time and 1:00 p.m. Eastern time in the auditorium at the Company's head office, 3777 Kingsway, Burnaby, B.C.; at the Robson Square Conference Centre, 800 Robson Street, Vancouver, B.C.; and at the Sheraton Centre, 123 Queen Street West, Toronto, Ontario.

INVESTOR INQUIRIES

For further information concerning the Dividend Reinvestment and Share Purchase Plan, direct deposit of dividend payments, the elimination of multiple mailings or the receipt of Annual and Interim Reports, please contact Montreal Trust Company:

By mail: Montreal Trust Company
Shareholder Communications
510 Burrard Street
Vancouver, B.C. V6C 3B9

By telephone: (604) 661-0222 in the Vancouver area or outside Canada.

1-800-380-7757 elsewhere in Canada.

For additional financial information, please call our Investor Relations Department:

(604) 432-2413 in the Vancouver area or outside Canada.

1-800-663-9405 elsewhere in Canada.

FOR YOUR INFORMATION

For general information about BC TELECOM, please call our Corporate Communications Department:

(604) 432-2668

Effective April 15, 1995, our Internet address is:

<http://www.bctel.com>

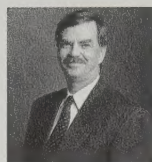
If you'd like to give us feedback on our annual report, our E-mail address (effective April 15, 1995) is:

a_report@bctel.com

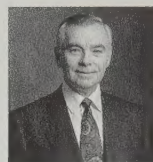
**BC TELECOM
EXECUTIVE
TEAM**



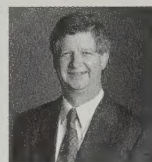
Dorothy E. Byrne
*Vice-President, Law
and Regulatory
Affairs and
Corporate Secretary*
BC TEL
BC TELECOM INC.



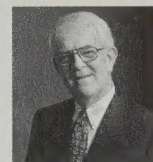
Don A. Calder
*Executive
Vice-President
Network Operations*
BC TEL
*Vice-President
Network Operations*
BC TELECOM INC.



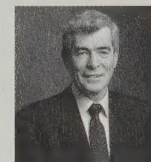
Brian A. Canfield
*Chairman
and Chief
Executive Officer*
BC TEL
BC TELECOM INC.
Chairman
BC TEL SERVICES INC.



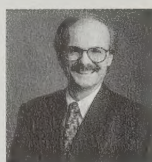
C. Kenneth
Crump
*Vice-President
Residential Sales
and Service Division*
BC TEL



Leo J. Dooling
*Vice-President
Finance and
Administration*
BC TEL
*Vice-President
and Chief
Financial Officer*
BC TELECOM INC.
*Vice-President
Finance*
BC TEL SERVICES INC.



Harold R. Ens
*Vice-President
Special Assignment*
BC TEL



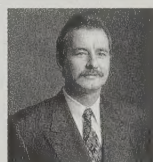
Roy A. Osing
*Vice-President
Business Division*
BC TEL



E. Lynn Patterson
*President
Sales and Service*
BC TEL
*Vice-President
Sales and Service*
BC TELECOM INC.



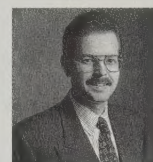
Fares F. Salloum
President
BC TEL SERVICES INC.
*Vice-President
Emerging Business*
BC TELECOM INC.



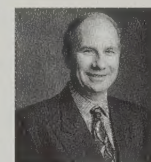
Paul D. Smith
*Vice-President
Human Resource
Development*
BC TEL



Gayle L. Stewart
*Vice-President
Corporate
Communications*
BC TEL



Arthur R. Tymos
Treasurer
BC TEL
BC TELECOM INC.
BC TEL SERVICES INC.



Alan E. Winter
President
MPR TELTECH LTD.

**BC TELECOM INC.
AND BC TEL DIRECTORS**

Brian A. Canfield
Chairman and Chief Executive Officer

G. Neldon (Mel) Cooper CM, OBC
*President, Seacoast Communications Group Inc.,
Victoria, B.C.*

Kent B. Foster
*Vice Chairman, GTE Corporation and President,
GTE Telephone Operations Group, Irving, Texas*

M. Rendina K. Hamilton QC, OBC
Corporate Director, Kelowna, B.C.

James L. Johnson
*Chairman Emeritus, GTE Corporation,
Irving, Texas*

Robert H. Lee OBC
*President, Prospero Group of Companies,
Vancouver, B.C.*

Gordon F. MacFarlane OBC
Corporate Director, Burnaby, B.C.

Victor F. MacLean
Corporate Director, Vancouver, B.C.

John W. Pitts
*President and Chief Executive Officer,
MacDonald Dettwiler & Associates Ltd.,
Richmond, B.C.*

Barbara J. Rae CM, OBC
Chairman, ADIA Canada Ltd., Vancouver, B.C.

W. Robert Wyman
Chairman, Finning Ltd., Vancouver, B.C.

